Annual Report 1991

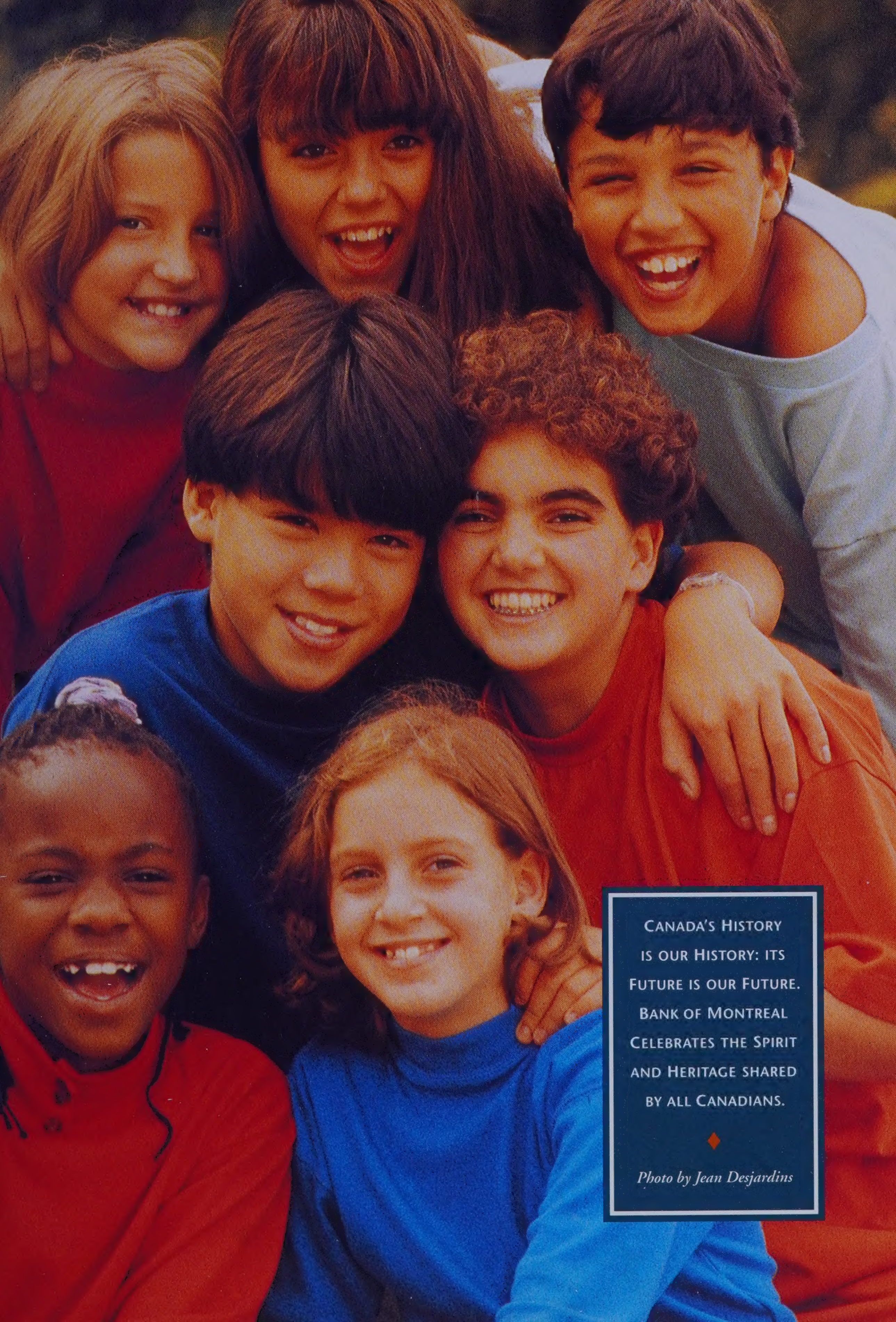
A PORTRAIT OF CANADA

To commemorate our 175th Anniversary,
Bank of Montreal proudly celebrates
the Canadian Spirit.

Bank of Montreal

1992 will mark two anniversaries – Canada's 125th and Bank of Montreal's 175th. In celebration of what we have achieved together, the first 20 pages of the Annual Report are devoted to A Portrait of Canada, painted through the words and photographic images of 16 distinguished Canadians.

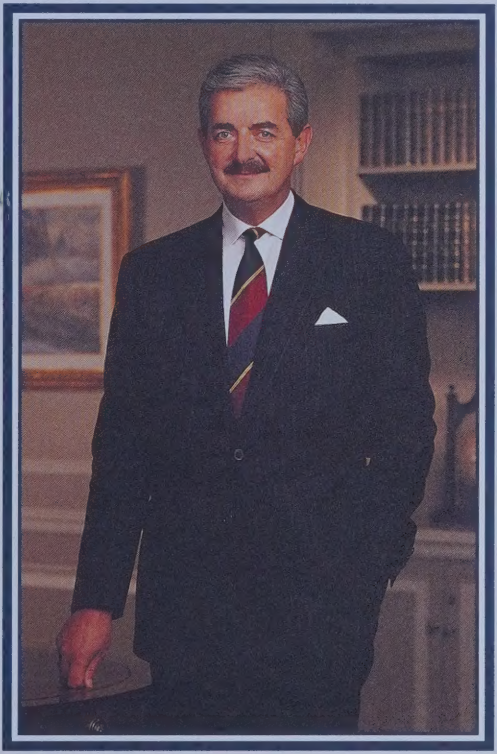
1817
1992
175 YEARS
BANK OF MONTREAL


Canada's History
is our History: its
Future is our Future.
Bank of Montreal
Celebrates the Spirit
and Heritage shared
by all Canadians.
Photo by Jean Desjardins

Chairman's Message to Shareholders

In 1992 Bank of Montreal will celebrate its 175th anniversary. We first opened our doors on November 3, 1817, at 32 St. Paul Street, Montreal. We were the first bank in Canada, and we have been in business ever since.

In this 1991 Annual Report we therefore look both forward and back. 1817 was an unimaginably different world. Montreal had 16,000 people and lived by the fur trade. Canadians travelled by canoe and snowshoe. Houses were heated by wood and lit by whale oil. News took a month to come from Europe. Canada was a colony, governed from London.



Change has been enormous and is still accelerating. Through it all, Bank of Montreal has survived, and grown mightily. In 1817, the Bank's capital was $150,000: today it is $4.5 billion. And we have done more than prosper. We have grown with Canada — and we have helped Canada to grow. For most Canadians the canoe and the snowshoe are now sports equipment, in part because we financed the first canal and the first railway. Our loans helped lay Canadian Pacific's 3,000 miles of track and, 80 years later, we financed Churchill Falls. Today we are still working with Canadians, both in millions of individual lives and in our undertakings as a nation. It is to them — our customers and shareholders — that in no small measure we continue to owe our success.

It is timely to remember these things, for two reasons. 1992 will also be the 125th anniversary of Canada's Confederation. That calls for a celebration, and few people have more to celebrate than Canadians. For millions of people all around the world, Canada is a city set on a hill. It is, for me, a humbling thought that only a tiny minority of all the human beings who ever lived have been as fortunate as Canadians — not only in material things, but in the intangibles of peace and freedom.

Yet this anniversary is also a time to pause and take stock. In recent years, Canadians have seemed more and more unsure of the way ahead. We are deeply divided on our constitutional future. In a time of bewildering change, we are unsure of our ability to earn our living in the

world's markets and give our children a better life than ours and, at the same time, to preserve our natural heritage and do our duty to the less fortunate. And the stress is showing. We have become given to envy and suspicion of each other. We bitterly resent injustices, real or imagined. Underlying all these unhappy symptoms is simple, old-fashioned ignorance — ignorance of our country and of all we have achieved and, even more, ignorance of each other.

"ONLY A TINY MINORITY OF ALL THE HUMAN BEINGS WHO EVER LIVED HAVE BEEN AS FORTUNATE AS CANADIANS."

At Bank of Montreal, we believe we can best celebrate Canada's anniversary and our own by reminding Canadians how rich we all are through the astonishing variety of the regions and peoples that make up the Canadian totality. For this special Annual Report we asked eight Canadian writers of standing to bring us a vision of Canada. Together with the outstanding work of our photographers, they open windows on the regions and people where each writer and photographer has roots. Together, they paint "A Portrait of Canada" which we hope will bring the Canadian reality home to our shareholders and our friends in Canada and abroad.

We are not doing this to give the public one more study that aspires to be detached, objective and impartial. Far from it. At Bank of Montreal, we are unequivocally committed to the Canadian ideal of a democratic, pluralist society, where one roof covers many hearths and a just balance has been struck between individual and collective rights.

We are committed, because over 175 years we have seen that even the less-than-ideal Canada of the past has worked. Less than ideal, because many Canadians have suffered from injustice, indifference, discrimination and neglect. But in the broadest view, Canada has been good to many people. It has certainly been good to Bank of Montreal. We can best thank Canada by helping Canadians to know their country, for knowing it is the first step to rebuilding it with ample room for all its people. This special Annual Report is our way of doing that, and I hope you will all read it with profit and pleasure.

M.W. Barrett

Matthew W. Barrett
Chairman and
Chief Executive Officer

A Portrait of Canada

Canada is often celebrated as a commonly shared experience of the land and its peoples. It is also, however, an intensely personal experience. The portfolio which follows is in reality a tapestry of sixteen such personal perceptions – eight highly individual photographic contributions presenting the country's regions, and an equal number of almost private visions and lived experience from eight distinguished authors. Bank of Montreal offers these individual portraits as a rich composite which perhaps can reveal the pattern of our country in its 125th year of existence.

Northern New Brunswick: A Personal Perspective

DAVID ADAMS RICHARDS

Our legends come from living in a land that contains so much power. We're too young for stories about genies found in a bottle. Ours have human blood. Animals known to us by touch. And water that we've seen.

Our bay is blue-green and I'm often reminded of my early years when I smell tar. For there was tar on all our wharfs. Our bay, calm as pond water, can turn as cold and as vicious as any place I can think of.

We used to swim off the wharf and watch the fishermen when they still drifted for salmon. The fishermen's trucks had old jacks and boots in them, or rags to cap the gas tank. Some had dingle balls and magnetic crosses against the window, black and white pictures of their wives and children stuck in the dash. Beer bottles left in the back of a truck from the church picnic two weeks before, and also the smell of nets and traps.

When they drifted for salmon they were gone all night, their nets out behind them, setting a course between P.E.I. and northern N.B. — and when I was a boy, none of them had radios, or radar. It was unheard of to be able to contact the shore.

As far as the rest of the world was concerned they were alone. The shore itself, if it could be seen, was a tiny spot on the horizon.

In good weather or bad, most of them fished. Or worse, did not always know really bad weather was coming.

It might be observed that no one thinks of fishermen dying until they do. Strange. It's as if they went to an office in the morning. And they would always be home.

Thirty-five didn't make it home one night. They were given no warning. I was seven years old at the time and the storm has been assimilated into our thought.

Boats, riding fifty feet in the air, would descend before the next wave and scrape the bottom of the bay.

Men thrown into the water, having been tossed lifelines, handed them to their brothers or cousins. A man tied his son to the mast, and then before he could tie himself, was swept overboard and disappeared. Boats, and one must realize how small a twenty-six-foot drifter can be in waves eighty feet high, refused to seek safety while others were in trouble, and time after time threw lifelines, and circled and kept watch, themselves battered and crippled and breaking up.

And so until the end.

Of course these men have a genius for deflating their own heroics. They can do it by looking away from you across a table. So one must not intrude upon their thought. Our legends are, as in every responsible nation, our own. We have breathed them into our blood.

They are physical presences in a room.

We meet them on the stairs.

BREADBASKET TO THE WORLD

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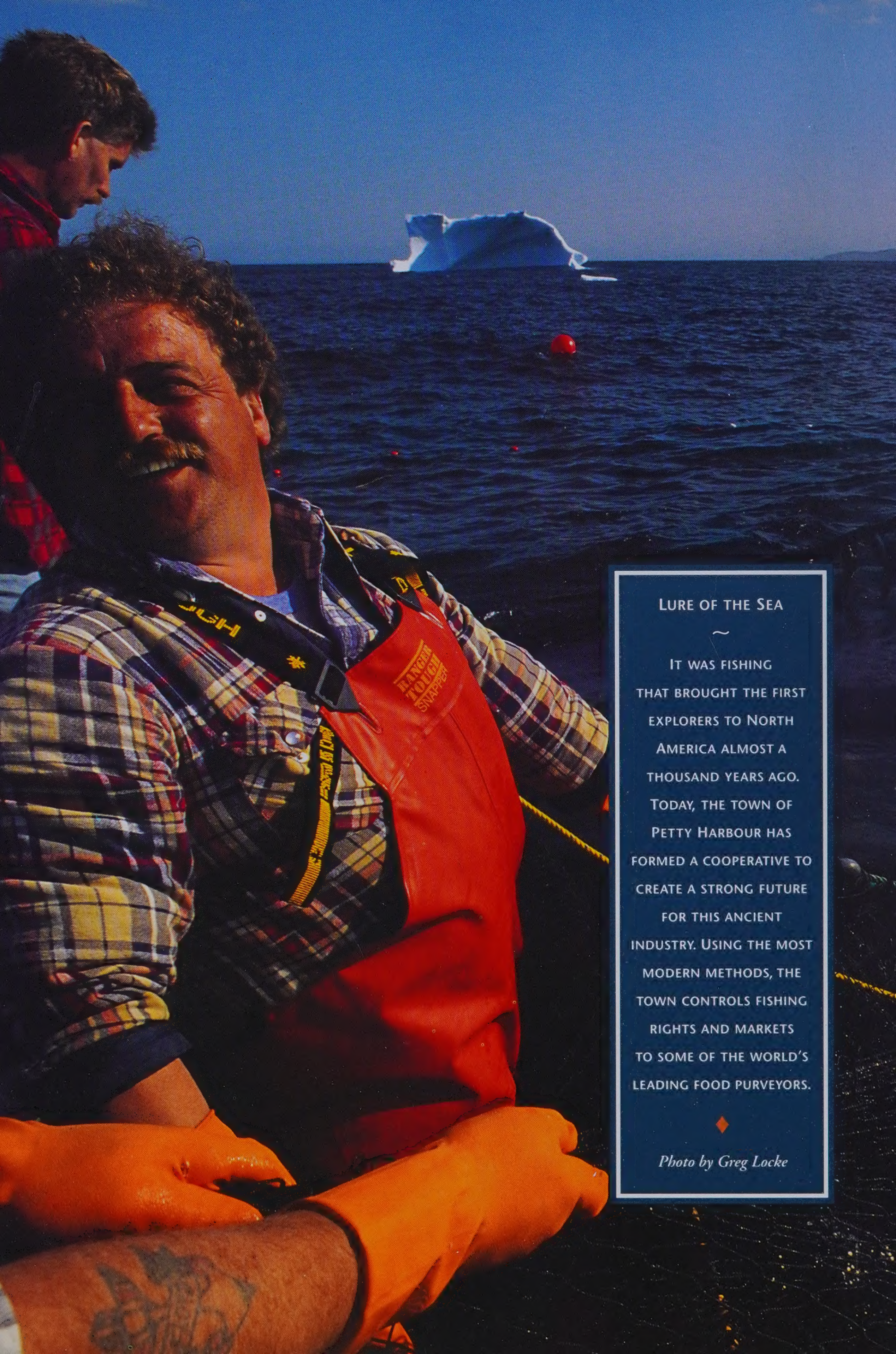
THIS SMALL, FAMILY-RUN BAKERY IN NOVA SCOTIA SYMBOLIZES SO MUCH THAT IS RIGHT AND GOOD IN CANADA, A COUNTRY WHOSE BOUNTY PROVIDES GRAIN TO MOST PARTS OF THE GLOBE. HERE CANADIAN INDUSTRY AND HARD WORK COME TOGETHER IN A SUCCESS STORY FOR MIKE AND GAIL WATSON.

♦

Photo by Stephen Homer



Lure of the Sea

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It was fishing that brought the first explorers to North America almost a thousand years ago. Today, the town of Petty Harbour has formed a cooperative to create a strong future for this ancient industry. Using the most modern methods, the town controls fishing rights and markets to some of the world's leading food purveyors.

Photo by Greg Locke

A Christopher Pratt, with High Winds

Ray Guy

It was even worse when the gale stopped dead to back away and gather puff and smash the house from a different side. Then, the big people edged further away from the kitchen window. Granny rocked a little faster, knit more briskly, and her tuneless humming broke out into short bits of Jesus being the rock in a weary land.

Then it would come again. Slamming, roaring, shrieking like whistles calling the hounds of hell. Windowpanes vibrated, the roof heaved, walls bowed inward half a foot. It was by far the loudest thing, then, much louder than the church bell, than the iron thumping of the boat engines, than even the Westbound Express, all steam and squeak at the station three miles away.

When I was seven I began to be afraid because by then I knew what a house was. It was a white wooden cube, crayon-simple, four rooms up, four down. It was a chopped spruce frame with clapboards to the outside and rough boards in and, between them, sawdust and dried eel grass for quilting. A house sat on flat rocks as big as cabbage boilers at each corner.

When the gale backed off to strike again even harder, the house would stand to creak no longer but would explode into cracked boards and shreds of tarpaper, sail in great pieces, people and all, off the fifty-foot cliff and into a cold ocean smashed by the gale into a white stinging mist.

And in the morning, there the house would be among that usual stew of uprooted kelp and lobster shacks and broken dories, churning against the cobblestone beach. But why did the big people seem quiet? Why did Granny knit faster and sing bits of her wind songs, most of which had rocks in them?

On Christ the solid rock she stood, all other ground was sinking sand. And when the wind backed off again, sucking the air with it, making the kerosene lamps flicker and the woodstove to snort smoke, why did my knee shake, why did my mouth taste like a big copper with the old King's head on it? We waited in the suffocating calm.

Granny bent down to the stool where I was with her wide bosom and martyrizing rheumatics and she said: "Hark, now. Hark to me." I harked to her and she turned her aches and pains slowly again and with a knitting needle hooked up a flap of torn wallpaper next to her rocker. There were many layers — more wallpaper, painted canvas, oiled cloth, stained cardboard — to the last page of newspaper pasted to the splintery board itself, brown as tea. And she jabbed at some tiny figure she must have known before and said: "Tell me that number. Tell that number to me now."

"Sept....tember," I said. "Two, naught. Eighteen and seventy t'ree."

It had stood and would stand but how I still don't know.

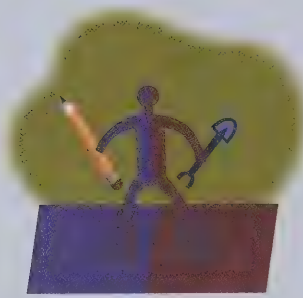
An Acadienne in Montréal

ANTONINE MAILLET

The other day I overheard a curious conversation between myself and my double, or if you prefer, between my two selves, author and character, each desperately trying to define her *raison d'être,* her sense of belonging. Despite the fact that we are both, in Acadie or Montréal, as much in our element as fish in water, a big fish on the East Coast, a little fish in Montréal, but glad to be swimming there too.

"So why did you ever leave if you were so happy back there among your dunes?" the one asks.

And the other answers: "But I didn't leave. All I did was transplant myself, lock, stock and barrel, to the heart of this North American metropolis of French culture. I live in Montréal, yet I live on Acadie."



"You live off it?"

"No, I live on its roots that strike down into pre-Champlain France, on its three-centuries-old memories, on its colours, smells, accents and words that have nourished my soul for half my life. I live on the nostalgia for a lost paradise, as we all do ever since Adam and Eve bit into the apple."

"But, isn't Québec, this adopted country of yours, a land of memories, French words and lost paradises, too?"

"Like Acadie, Québec is a hinge between the Old World and the New, by its culture, its language, its lifestyle, the whole kit and caboodle."

"I know, I know. Everyone knows that Québec is different. Acadie likewise. And the same goes for every other group of French Canadians *a mari usque ad mare.* But at that rate English Canadians are distinct too by their language, Chinese by their culture, or Native people by their traditions."

"The whole country belongs to everyone, and every culture that has sunk roots here has enriched it with a new and irreplaceable vision."

"So."

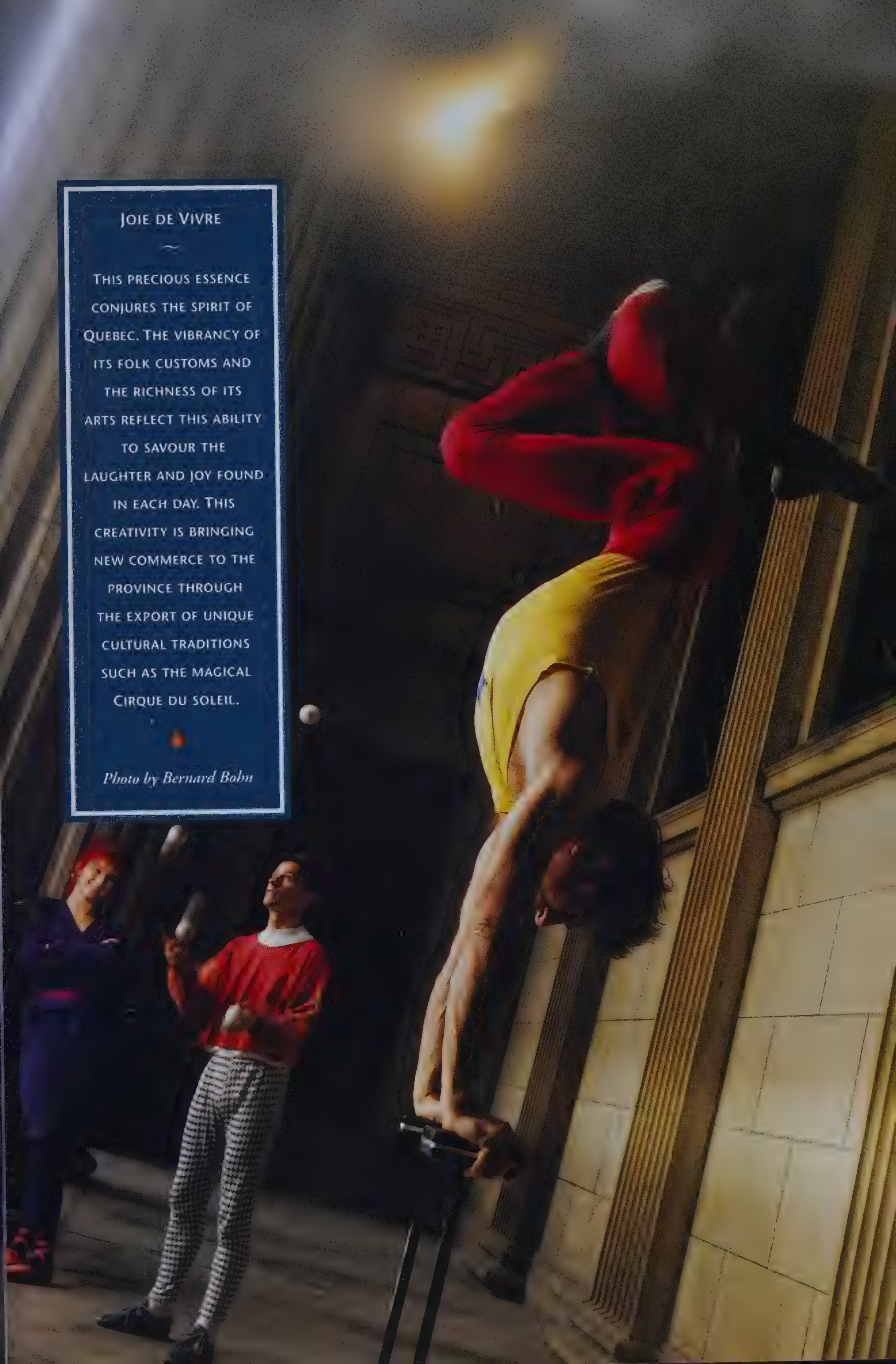
"So I continue to cultivate my cabbages and flowers in my own garden, even though it's no bigger or more fertile than my next door neighbour's. And if I had to leave Québec as I left Acadie, I would still take with me its smells, its words, and an experience of thirty years in this French cultural metropolis where living means so much more than just earning a living."

"Really? And what's it like to live in Montréal, then?"

"As if the whole world was to be made over again, as if the earth hadn't yet completed its first trip round the sun, as if every one of its citizens had the right to dream its future and believe that one day life would begin to look like that dream."

"If I remember rightly, you used to dream the same dream back in Acadie."

"That's just proof that I am the daughter of a vast continent, and that the whole country belongs to me."



JOIE DE VIVRE

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THIS PRECIOUS ESSENCE CONJURES THE SPIRIT OF QUEBEC. THE VIBRANCY OF ITS FOLK CUSTOMS AND THE RICHNESS OF ITS ARTS REFLECT THIS ABILITY TO SAVOUR THE LAUGHTER AND JOY FOUND IN EACH DAY. THIS CREATIVITY IS BRINGING NEW COMMERCE TO THE PROVINCE THROUGH THE EXPORT OF UNIQUE CULTURAL TRADITIONS SUCH AS THE MAGICAL CIRQUE DU SOLEIL.

Photo by Bernard Bohn

Windows on the World

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Toronto, home to leaders in aerospace and state-of-the-art telecommunications, has been called the city of the twenty-first century. Nowhere is this more evident than in the innovation of its industry and technology. The breakthrough IMAX film system is dazzling audiences around the world.

♦

Photo by Peter Christopher

Ontario on My Mind

CHRISTINA MCCALL

My mother's grandfather came to Ontario in 1850 and set up a sawmill in the bush. My father arrived sixty years later, liked what he saw and stayed. And I was born, educated, published and praised here, and have resolutely remained, no matter how powerful the siren songs of London and New York.

For most of the time, I never thought of myself as an Ontarian. It seemed like a soupy concept, an oddly awkward word. In my mind, I was always a Canadian. And however hard my fellow citizens in the more self-aware regions tried to disabuse me of the notion, I resisted with true patriot love. When I went to Nova Scotia to write about a mine disaster, and met with whispered hostilities against "slick Upper Canadians like her," I forebore. When I had the tires on my car with the Ontario license plates slashed in Montreal, I agreed gratefully when my rescuer, a grizzled mechanic, remarked, *"Ces gars-là, ils sont trop jeunes pour comprendre que nous sommes tous Canadiens."* And when I was invited to an Alberta ranch in the middle of an OPEC crisis and greeted with the grim cliché, "Well, I hope you eastern bastards are freezing in the dark," I laughed, glad that the Albertans, as well as the Arabs, were waxing richer by the hour. They were Canadians, after all, and what was good for them was good for the country, indivisible from sea to sea.

It's only now in the '90s, when Canada's been falling apart, that I've begun to realize that those weren't isolated insults. They were expressions of rage at the country I came from and they've forced me to look with fresh eyes at the role my province has played in what we thought was a nation-state. But even now when I've begun to sort through Ontario's history, its shortcomings, and its guilt, I still think it's a great good place. I'm proud of its past prosperity and its willingness to share it. (For nearly fifty years transfer payments have been made without complaint.) I'm proud of its writers and thinkers — of Callaghan, Davies, Ricci and Frye, of Munro, MacDonald, Atwood and Avison. I love its landscapes from the flatlands of the southwest to the bleaklands of the north and the rock-and-lake lands of the eastern counties. And I even love Toronto, the jewel in its tarnished crown, a city that — despite the self-engrossment of its preening, interlocking elites — has managed to absorb in my lifetime hundreds upon thousands of immigrants of astonishing diversity and tried to meet their disparate needs.

In fact, when next I go out into the other regional realities and am accosted as an alien invader, I'll respond in a different way. "Yeah, I'm glad to belong to Ontario," I'll say. "But I hope you won't find me an archetypal Arrogant when I tell you I still wish that Canada could belong to me."

What a Certain Visionary Once Said

Tomson Highway

As you travel north from Winnipeg, the flatness of the prairie begins to give way. And the northern forests begin to take over, forests of spruce and pine and poplar and birch. The northern rivers and northern rapids, the waterfalls, the eskers, the northern lakes — thousands of them — with their innumerable islands encircled by golden-sand beaches and flat limestone surfaces that slide gracefully into water. As you travel further north, the trees themselves begin to diminish in height and size. And get smaller until, finally, you reach the barren lands. It is from these reaches that herds of caribou in the thousands come thundering down each winter. It is here that you find trout and pickerel and pike and whitefish in profusion. If you're here in August, your eyes will be glutted with a sudden explosion of colour seldom seen in any southern Canadian landscape: fields of wild raspberries, cloudberries, blueberries, cranberries, stands of wild flowers you never believed such remote northern terrain was capable of nurturing. And the water is still so clean you can dip your hand over the side of your canoe and you can drink it. In winter, you can eat the snow, without fear. In both winter and summer, you can breathe, this is your land, your home.

Here, you can begin to remember that you are a human being. And if you take the time to listen — really listen — you can begin to hear the earth breathe. And whisper things simple men, who never suspected they were mad, can hear. Madmen who speak Cree, for one, can in fact understand the language this land speaks, in certain circles. Which would make madmen who speak Cree a privileged lot.

Then you seat yourself down on a carpet of reindeer moss and you watch the movements of the sky, filled with stars and galaxies of stars by night, streaked by endlessly shifting cloud formations by day. You watch the movements of the lake which, within one hour, can change from a surface of glass to one of waves so massive in their fury they can — and have — killed many a man. And you begin to understand that men and women can, within maybe not one hour but one day, change from a mood of reflective serenity and self-control to one of depression and despair so deep they can — and have — killed many a man.

You begin to understand that this earth we live on — once thought insensate, inanimate, dead by scientists, theologians and such — has an emotional, psychological and spiritual life every bit as complex as that of the most complex, sensitive and intelligent of individuals.

And it's ours. Or is it?

A certain ancient aboriginal visionary of this country once said: "We have not inherited this land, we have merely borrowed it from our children."

If that's the case, what a loan!

Eh?

PRESERVING TRADITIONS

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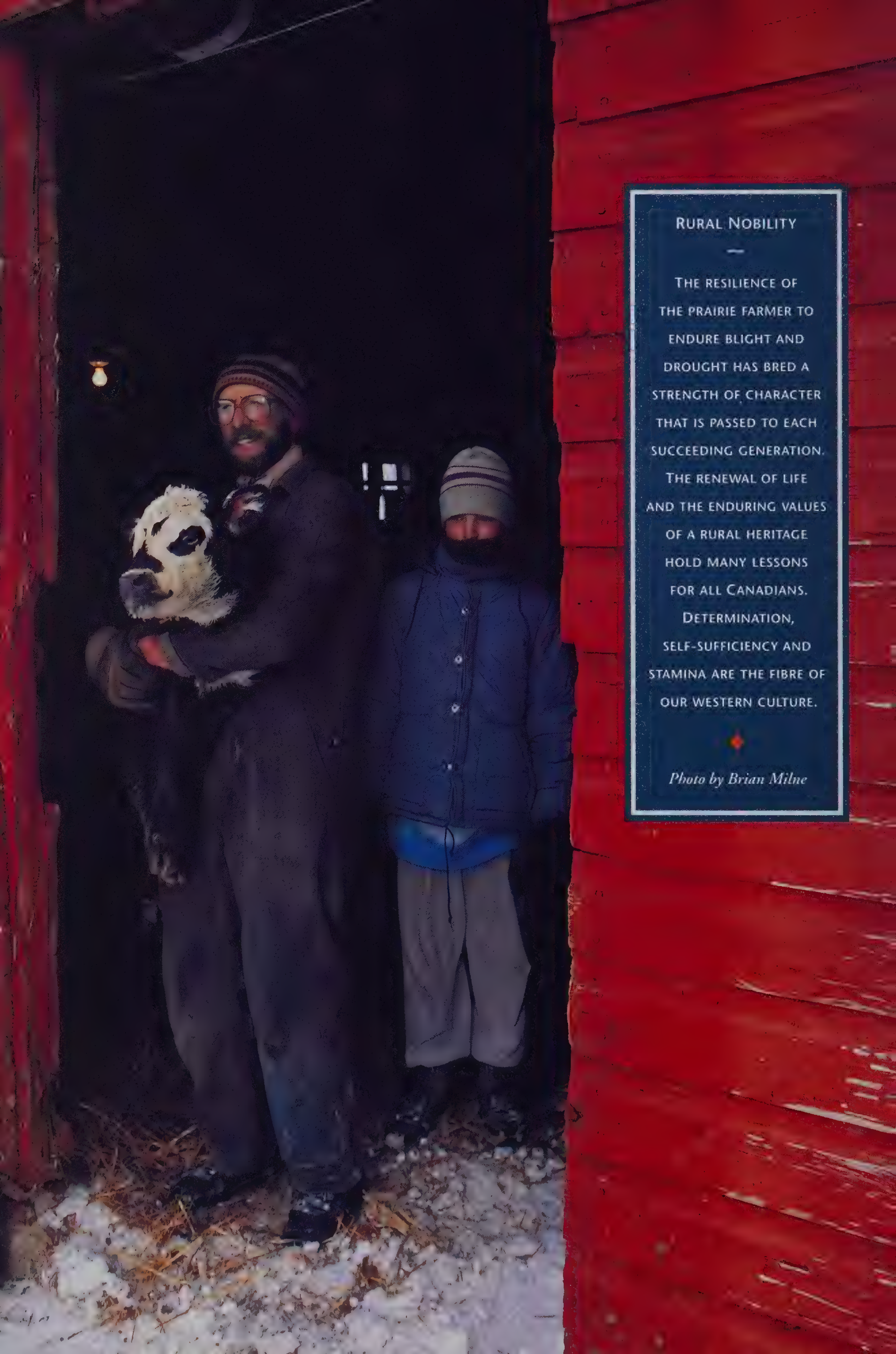
THE YOUTH OF THE KWAKWAKA'WAKW NATION LEARN THE STEPS OF TRADITIONAL NATIVE DANCES. IN THE BACKGROUND ARE MASKS WHICH SYMBOLICALLY TELL THEIR FAMILY LEGENDS AND HISTORIES. THE VIGOUR OF THEIR COMMITMENT TO PRACTISING THE ANCIENT RITES IS A PROFOUND COMMENTARY ON THE ABILITY OF A CULTURE TO SURVIVE CHANGE AND ADVERSITY.

Photo by David Neel



Rural Nobility

The resilience of the prairie farmer to endure blight and drought has bred a strength of character that is passed to each succeeding generation. The renewal of life and the enduring values of a rural heritage hold many lessons for all Canadians. Determination, self-sufficiency and stamina are the fibre of our western culture.

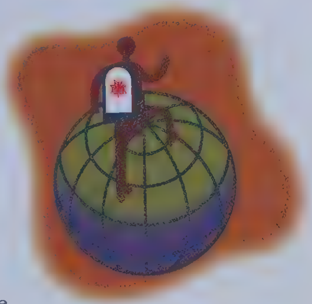
Photo by Brian Milne

What Thou Art Not

W.O. MITCHELL

In the past few years, with all the political discourse about distinct societies within our Canadian family, I have tried through recall to understand not what constitutes a distinct society, but what constitutes this distinct Canadian. Ironically, it is not my prairie childhood but the years from the age of thirteen to eighteen that I lived outside the land of my birth, which litmus-stained me Canadian.

Many of my readers confuse me with my fictional character from Crocus, Saskatchewan: Jake Trumper. But Jake Trumper, because of a tuberculous wrist, spent no time on the Gulf of Mexico. Unlike him, for six years I never felt the chill of a Northern winter. To my best knowledge, neither Jake nor the Kid ever got stung just above the belly button by a scorpion.



Each school mid-morning, when we had chapel break at St. Petersburg High to hear how the St. Pete Green Devils football team would whip Orlando or Plant City or Lakeland High, we also parroted the American oath of allegiance. THEY did. I did not. I stood with them for their national anthem, but I did not hold my right hand over the spot where I thought my heart might be, nor did I use the same lyrics as the others did. They had stolen the tune of my national anthem and I had every right to sing the words to GOD SAVE THE KING while they sang MY COUNTRY 'TIS OF THEE.

As well, I explained to them that the last letter in the alphabet was not "ZEE" but "ZED" as pronounced by our British ancestors, who had invented the English language in the first place. They accused me of saying "eh" instead of "huh" and claimed they had won the War of 1812, and would not believe me when I told them WE had. Actually it was probably a draw.

Understanding what I am as a Canadian by what I am not, carried on for me when at nineteen I shipped out in a Greek freighter. On my backpack I painted with red lead: CANADA. I did this on the advice of the Newfoundland quartermaster, Slim, who explained that with the American discovery of Europe after the First Great War and the tourist invasion, Canadians were much more welcome. We still are. Welcome because of what we are not. We are not a boastful or chauvinistic nation, proclaiming at every opportunity that we are the best. We don't have to because we know we are the best.

In making this observation, I am plagiarizing the woman who has been able to stand living with me for forty-nine years. She lived in a suburb of Boston from the age of three to eighteen and agrees with me that William Shakespeare was dead on — or would have been — if one of his characters had said: "Know what thou art not, and it follows as night the day thou wilt then truly know thyself."

A Funeral in Winnipeg

MICHAEL KUSUGAK

Amittuq people will never starve
They get caribou, seals too
Amittuq people will never starve
I was singing, I always sang.

We walked across the low, hummocky terrain on the west coast of the Hudson Bay. Actually, old Nilaulaaq walked. Kaluk and I would walk a while and then run to catch up. Old people were such strong walkers. Nilaulaaq carried his sleeping bag and his rifle. Our pack dog carried our blankets, tent and kettle. We scrambled up the hill where Nilaulaaq was smoking his pipe.

In autumn this country is bathed in browns, reds and yellows. The sandhill cranes cry out "Krrr, Krrr," and their call can be heard for miles, unhindered. "Keep your eyes open for caribou," Nilaulaaq told us.

The next afternoon we tied our dog to a rock and stalked two caribou by a lake. When I went to retrieve the dog, the wretched thing was nowhere to be found.

Kaluk and I slept under wet caribou skins that night and, early the next morning, we started back. Nilaulaaq carried almost a whole caribou on his back and he walked in the same determined pace. It occurred to me that, in his youth, he would have had starving people at home he needed to reach.

In the early afternoon it began to rain and Kaluk and I were soon soaked and resigned to our fate. Nilaulaaq said: "Pick some of this stuff," pointing to some short green scrub. Reluctantly, we picked the wet prickly plants and, soon, he had a roaring fire going. That man never ceased to amaze me. He took his enamelled cup, filled it with water and balanced it over the fire. He produced a small packet of sugar and stirred some of it into the hot water. He gave us the cup. It is one drink I shall never forget. It warmed our bodies, lifted our spirits and gave us strength. It was truly magic. I don't remember it raining after that.

Oaaq and her family
Are eating an enormous, monstrous fish

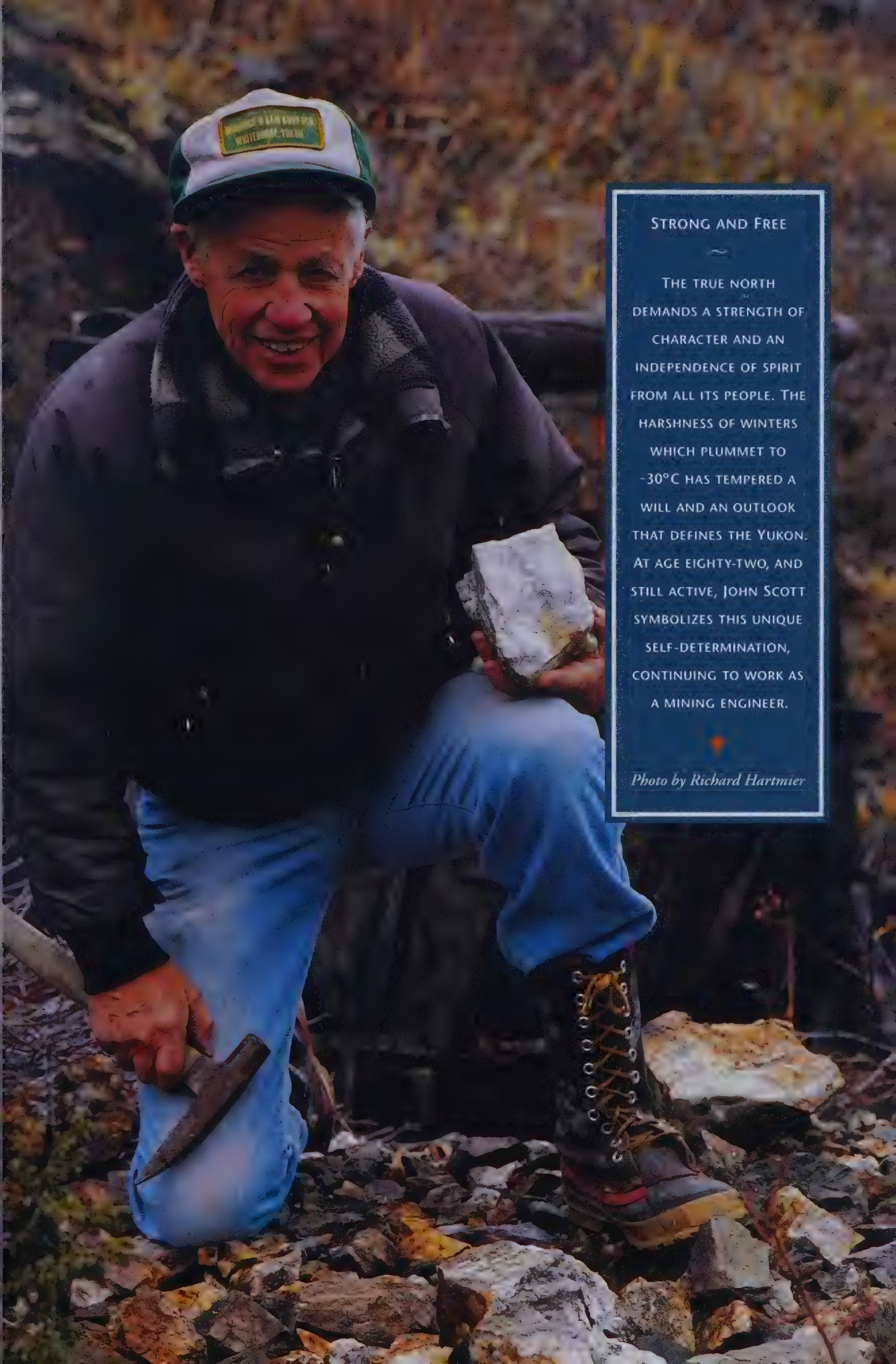
I remember singing.

That fall, I went south to school. When I returned, Nilaulaaq was not there. He had got sick and had been sent away. No one knew where. He had just gone away. Last year, almost thirty years later, we found him in a small cemetery in Winnipeg.

One day we must have a proper funeral service for Nilaulaaq. I will tell this story. His new countryfolk should know something about him. When they happen upon his grave they can say: "And here lies Nilaulaaq. He was a good man." We will leave a pouch of pipe tobacco for him and say: "Please feel free to share it with him. And when it's gone please fill it up again. He has been too long without it."

Who will marry the man with only one rib
He catches seals and caribou
Who will marry the man with one rib

Taima



STRONG AND FREE

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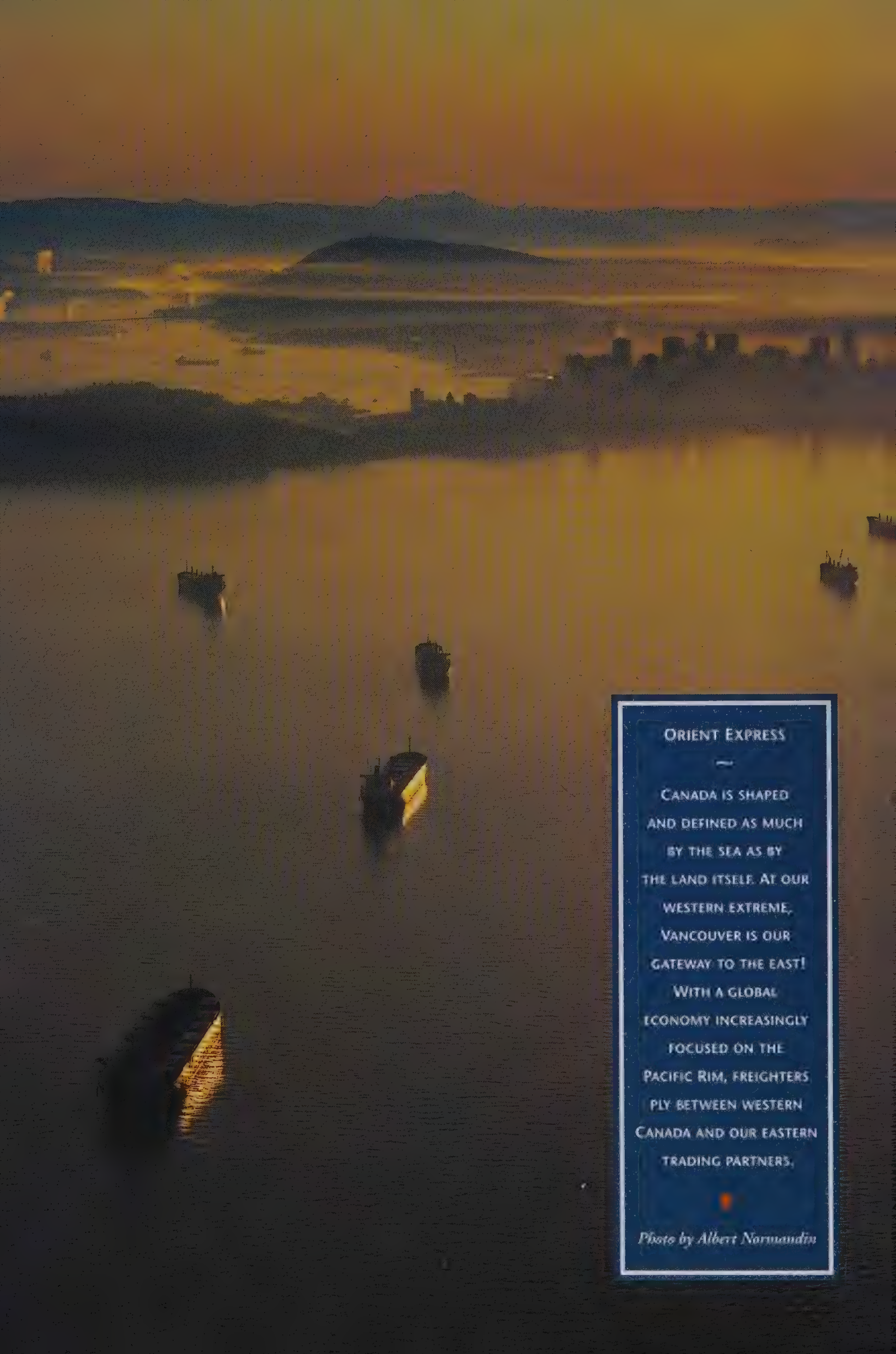
THE TRUE NORTH DEMANDS A STRENGTH OF CHARACTER AND AN INDEPENDENCE OF SPIRIT FROM ALL ITS PEOPLE. THE HARSHNESS OF WINTERS WHICH PLUMMET TO -30°C HAS TEMPERED A WILL AND AN OUTLOOK THAT DEFINES THE YUKON. AT AGE EIGHTY-TWO, AND STILL ACTIVE, JOHN SCOTT SYMBOLIZES THIS UNIQUE SELF-DETERMINATION, CONTINUING TO WORK AS A MINING ENGINEER.

Photo by Richard Hartmier



ORIENT EXPRESS

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CANADA IS SHAPED AND DEFINED AS MUCH BY THE SEA AS BY THE LAND ITSELF. AT OUR WESTERN EXTREME, VANCOUVER IS OUR GATEWAY TO THE EAST! WITH A GLOBAL ECONOMY INCREASINGLY FOCUSED ON THE PACIFIC RIM, FREIGHTERS PLY BETWEEN WESTERN CANADA AND OUR EASTERN TRADING PARTNERS.

Photo by Albert Normandin

And Things Get Stranger Every Day

PHYLLIS WEBB

Vancouver Island is weighing anchor, heading for the South Pacific. At the corner of Government and Belleville streets in Victoria the carillon chimes out "Goodbye Canada, Goodbye." The great island makes a stately flagship, a flotilla of smaller Gulf Islands following in its wake. Passengers and crew are in a holiday mood. Politicians lounge in deck chairs sipping fruit juice. Civil servants head "up island" for Long Beach as members of the Nootka tribe race south to liberate artifacts in the Royal Provincial Museum. Tourists in Butchart Gardens sniff the sea air and strike up shipboard romances. On Little Saanich Mountain, concerned with higher things, astronomers at the Astrophysical Observatory shift their sights for new supernova. But Oak Bay golfers are dismayed, for among sportsmen, as Irving Layton has said, "they are the metaphysicians / intent, untalkative, pursuing Unity."

It's a charming fantasy for a west coast rainy day. I had it often during the Meech Lake debate, and here we go again, flags flying. But this is no ordinary South Pacific cruise. As we glide by Fiji, hot and prickly in our winter clothes, the rain forest in even deeper shock than usual, some of us begin to long for home.

Fax rumours abound. The P.M. placed a call. He's finally noticed. He hasn't. He has. The Globe and Mail is going tabloid. Denied. Affirmed. Quebec wants to know if we're speaking French yet. Anything but — Cantonese, Japanese, Vietnamese, American. The Four Seasons Hotel in Vancouver is being torn down to make way for a new legislature to replace Victoria's. No! We're losing power, losing touch with Kamloops, Lytton, Hope, Fort St. John, *Toronto*. We experience a rush of solidarity with Newfoundland out there on the fringe. Suddenly we miss the constitutional committees, cabinet shuffles, the CBC.

And things get stranger every day. The sea around us throbs with dying dolphins who cry out their problems as if we were friends. The flotilla is spreading out and spreading thin. On Saltspring Island the Buddhist retreat recruits dozens of loggers every day. In the woods deer are miniaturizing in Darwinian fast forward; tiny cougars pad around shrub-like Douglas firs. Multinational corporations devolve into cowrie shells, and politicians know for sure small isn't beautiful. For God's sake, Captain, head back home before we all incredibly shrink!

Lights on the Parliament Buildings surge on. "Power, Power, Power," they flash to guide us past Hawaii and on and up into the blue dark coastal night.

We arrive just in time for Canada's 125th, refreshed by our new perspectives, younger and wiser. Ships of the B.C. Ferries fleet, circling in fog and confusion all this time, aim for our docks where they're greeted with wild cheers. What's the point of being an islander if you can't get off to the mainland now and then? But the golfers stay put, resume their game, like good Canadians, pursuing Unity.

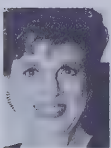
Our Contributors

Barry Callaghan is an award-winning novelist, poet, publisher, editor and journalist, as well as Professor of Literature at York University, Toronto. His works include "The Way the Angel Spreads Her Wings" and "The Black Queen Stories." He has made an invaluable contribution as literary editor for "A Portrait of Canada."

David Adams Richards: Winner of the 1988 Governor General's Award for Fiction, David Adams Richards writes about his native New Brunswick. He is perhaps best known for his "Evening Snow Will Bring Such Peace," which won the Canadian Authors Association Award for Best Fiction in 1990, and his "Nights Below Station Street."

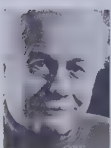
Ray Guy: Born in Come by Chance, Placentia Bay, Newfoundland, Ray Guy is a freelance journalist, playwright and broadcaster. He has won a number of national writing awards, including the Stephen Leacock Medal for Humour in 1977.

Antonine Maillet: Born in Bouctouche, New Brunswick, Antonine Maillet first won fame in Quebec and in France with "La Sagouine." She shares her time between Acadia and Montreal, where she has lived for the past 20 years. She won the 1972 Governor General's Award for "Don l'Orignal" and the Prix Goncourt in 1979 for "Pélagie-la-Charrette."



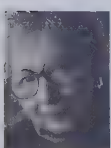
Christina McCall: Editor, political commentator and author, Christina McCall won widespread acclaim in 1982 for "Grits: An Intimate Portrait of the Liberal Party." Born in Toronto, she has collaborated with Stephen Clarkson on a major study of Pierre Trudeau's impact on Canada. The first volume, published in 1990, won the Governor General's Award for Non-Fiction.

Tomson Highway: Native Canadian playwright Tomson Highway was born on his father's trapline in remote northern Manitoba. His mainstream hit "The Rez Sisters" represented Canada in 1988 on the Mainstage of the Edinburgh International Festival. In 1989, his next play, "Dry Lips Oughta Move to Kapuskasing," won four Dora Mavor Moore Awards.



W.O. Mitchell's "Who Has Seen The Wind," first published in 1947, is hailed as the great classic of Canadian boyhood. A native of Weyburn, Saskatchewan, his much loved collections of short stories, "Jake and the Kid" and "According to Jake and the Kid," both won the Stephen Leacock Award for Humour.

Michael Arvaarluk Kusugak was born on the west coast of Hudson Bay and grew up on the Arctic Circle. A natural storyteller, in 1988 he began writing books for children. "A Promise is a Promise" was co-authored with Robert Munsch. He has also written "Baseball Bats for Christmas" and "Hide-and-Sneak."



Phyllis Webb: Former teacher and broadcaster, Phyllis Webb won the 1982 Governor General's Award for Poetry for "The Vision Tree." Her poems have been translated into many languages. Born in Victoria, B.C., she now lives on Saltspring Island.

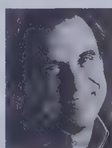
"An Acadienne in Montréal" translated by Philip Stratford.

Jean Desjardins: Born in Quebec City, Jean Desjardins studied philosophy and visual arts at Laval University and Ryerson Polytechnical Institute. Jean has a passion for harnessing light to capture and create strong visuals. In 1990 he was selected to work on Toronto's bid book for the 1996 Summer Olympics.

Stephen Homer*: "Tidal Life" is the most recent project of the award-winning photographer, Stephen Homer, a native of New Brunswick. The book studies the people of the Bay of Fundy in Nova Scotia and New Brunswick. His work has appeared in leading publications, among them *Forbes*, *Audubon*, *National Geographic Traveller* and *International Wildlife*.

Greg Locke*: As a freelance photojournalist, Greg Locke has worked on location around the world. For the past three years he has been studying the inshore fishery industry of his native Newfoundland for his book on the Petty Harbour Cooperative.

Bernard Bohn: Born in France and educated as a geologist, Bernard Bohn came to photography relatively late. Now living in Montreal, he says of his love affair with the camera, "It was a *coup de foudre*." His award-winning portrait work derives from an aesthetic ideal, often exploring new technical limits with an element of surprise.

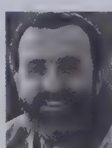


Peter Christopher: Born in Hamilton, Ontario, Peter Christopher was commissioned to take the photographs for "Between Friends," Canada's bicentennial gift to the United States. He has recently published "Columbus, Gold, God & Glory" for the Columbus quincentennial. Most recently he is at work with Peter Newman on "The Guilded Age" for Canada's 125th birthday.

David Neel* ('T'łat'łał̱a'wis') is a professional photographer and a hereditary artist of the Fort Rupert Kwagiutl. Part of a lineage of traditional artists, he also works in painting, print-making and wood sculpture. His art is represented in public collections across Canada.

Brian Milne*: A native of Manitoba, Brian Milne became Canada's leading photo-documentor of "ordinary Canadians" during the 1980s. He has created dozens of stories of Canadian community life for *Equinox* magazine, and has worked for other magazines including *National Geographic*, *GEO*, *International Wildlife* and *Canadian Geographic*.

Richard Hartmier*: The northern environment, the extremes of the seasons, the warmth and honest openness of the people: these were the factors that attracted and have bound Richard Hartmier to the Yukon for 18 years. His photos of the north have appeared in publications worldwide and have been used extensively in advertising for the Yukon and Northwest Territories.



Albert Normandin began taking pictures as a boy with an old Brownie camera. He studied under Jay Meisel in New York before returning to his native Vancouver seven years ago. He has won awards from *Communication Arts*, *Maine Photographic Workshops* and *Photographers Forum*.

*Represented by First Light, Toronto.

Management Review

This section introduces the financial component of the Annual Report, beginning with the President's summary of the Bank's achievements during 1991 and our perspective on the future.

Subsequent sections deal with our Financial Goals and Measures, the Management Analysis of Operations and our Financial Statements.

Annual Highlights

For the Year Ended October 31	**1991**	1990	Change
Earnings Information ($ in millions)			
Net income	**$ 595**	$ 522	13.9%
Total revenues (TEB)*	**3,995**	3,653	9.4
Provision for credit losses	**337**	169	99.9
Non-interest expense	**2,605**	2,453	6.2
Per Common Share ($)			
Net income	**$ 4.63**	$ 4.20	$ 0.43
Dividends	**2.12**	2.12	–
Financial Ratios (%)			
Return on average common equity	**15.0**	14.6	0.4
Return on average total assets	**0.63**	0.63	–

As at October 31			
Financial Position ($ in billions)			
Assets	**$ 98.7**	$ 87.4	13.0%
Loans	**60.2**	55.1	9.2
Deposits	**82.8**	73.3	12.9
Capital funds	**6.1**	5.4	13.4
Common equity	**3.8**	3.5	11.1
Risk-Based Capital Ratios (%)			
Tier 1	**6.3**	5.5	0.8
Total	**8.8**	8.3	0.5
Other Information			
Number of common shares outstanding	**119,385,179**	114,994,530	3.8%
Number of bank branches	**1,239**	1,242	(0.2)
Number of automated banking machines and cash dispensers	**1,221**	1,163	5.0
Number of employees	**32,130**	33,580	(4.3)

*Net interest income and other operating income reported on a taxable equivalent basis (TEB).

Report from the President

In 1991 we made very good progress toward all our major goals. Our new Corporate Strategic Plan, which was introduced 18 months ago, calls for continuous improvement in everything we do. This year we met the challenge.

Our financial performance was particularly strong, with Bank of Montreal finishing at or near the top of the six largest banks in several categories. We also bettered the industry average in overall financial performance.

Profits increased by 14% and the return on your investment was the best it has been in more than a decade. But even while paying close attention to the present, we never took our eyes off the future. We invested significant resources in the training, technology and expansion that will keep us on the path of continuous improvement.

Financially Speaking...

We maintained or improved our ranking in five of the seven categories — return on shareholders' investment, asset quality, earnings growth, return on equity, liquidity, capital base and productivity — that measure financial success.

Our **return on shareholders' investment** for 1991 was 46.3%, which means that you, as a shareholder, earned your best return in more than a decade. We did much better than the TSE 300 and finished third in the industry.

The Bank also ranked first in **asset quality** (measured by the ratio of loan loss provisions to total loans), the result of a well-diversified portfolio weighted toward such low-risk assets as residential mortgages. Our exposure to such high-risk areas as commercial real estate and loans to lesser developed countries was less than 10%.

"OUR RETURN ON SHAREHOLDERS' INVESTMENT FOR 1991 WAS 46.3%, WHICH MEANS YOU EARNED YOUR BEST RETURN IN MORE THAN A DECADE."

We ranked second in terms of **earnings growth**. Our profit, or after-tax net income, was $595 million, a record and an improvement of $73 million, or nearly 14%, over 1990. We did have higher loan losses. The recession took its toll on our customers and consequently on us, and our Brazilian operation was hard hit by adverse economic conditions. But profits were up substantially at the Parent Bank and both of our major subsidiaries, Harris Bankcorp, Inc. and The Nesbitt Thomson Corporation Limited.

Despite the recession, we achieved an 11% increase in common shareholders' equity and a 15% **return on equity** (income for common shareholders as a percentage of their equity), bettering the six bank average of 14%. Our short-term goal is to top 15% or the industry average, whatever is greater; our long-term goal is to rank first or second in this key measure of profitability.

Once again the Bank has the highest level of **liquidity** (measured by the proportion of cash resources and securities to total assets) in the industry. This has given us the cash flow to meet all of our financial commitments and the flexibility to move quickly and assertively as new opportunities arise. While our liquidity has enabled us to aggressively reduce loan rates, we would benefit from lending more of these funds to our customers than we do at present.

We strengthened our **capital base**, the foundation for all Bank activities, by some $700 million during 1991. Our capital ratio (capital divided by risk-adjusted assets) was 8.82%, well above regulatory requirements which come into effect in 1992.

In the **productivity** category, we improved on our 1990 performance and further narrowed the gap with the competition. Actually, we improved our productivity ratio by two full percentage points — 65.2% compared with 67.2% a year earlier. Despite our strategic focus on future-building, we held the increase in expenses to only 6.2% while revenues rose by over 9%. Productivity has never ceased to be a high priority. We intend to achieve the industry average by year-end 1993, and then move up to first or second.

Going to Market...

As you know, the traditional geographic focus of our business is North America, where we already have a cross-border presence unmatched by any other bank, Canadian or American. In addition to the Bank's offices in New York, Houston, Los Angeles and Chicago, we are the only Canadian bank to own a full-service American bank, Harris Bankcorp. So you won't be surprised to learn that our first marketing priorities in 1991 were the continued strengthening of our Canadian base and selective expansion in the U.S..

Decentralization was a dominant part of our strategy in Canada. We completed the shift of personal and commercial banking operations into about 250 communities. In pursuit of one of our key goals, which is to provide services that are more customer and market-driven, we continued to bring our senior people closer to our customers, and we gave local staff more decision-making authority.

In the corporate and institutional sector, we focused on improving services to our borrowing and investing clients. The changes, which blend the strengths of investment banking with the direct lending power and client relationship management of corporate banking, have brought us more business and higher profits.

"OUR MOST SUCCESSFUL STRATEGY WAS TO LEAD THE DOWNWARD TREND IN THE PRIME INTEREST RATE. OUR MORTGAGE GROWTH RATE WAS REMARKABLE."

Without doubt our most successful strategy was the decision, taken more than a year ago, to lead the downward trend in the prime interest rate. We have pursued this strategy aggressively. During this period our growth rate in loans and mortgages was remarkable — 16% in residential mortgages alone.

Obviously, customer satisfaction is the key to success. That's why we monitor it so closely on an ongoing basis, conducting a series of customer surveys to compare our performance with that of our major competitors. Last year, our Corporate and Institutional Financial Services customers ranked us first among Canadian financial institutions, earning us an outstanding rating in customer satisfaction. As well, although we still have a way to go to meet our goals, surveys of customer satisfaction in the Personal and Commercial Financial Services group showed the most improved ratings in the industry over the last two years.

Overall in 1992, our first priority is to increase personal and commercial mid-market loans so that our share of the all-bank loan market in Canada reaches 15% to 16% over time — proportional with the size of our distribution network and deposits. We expect growth to come largely through improvements in our distribution and service.

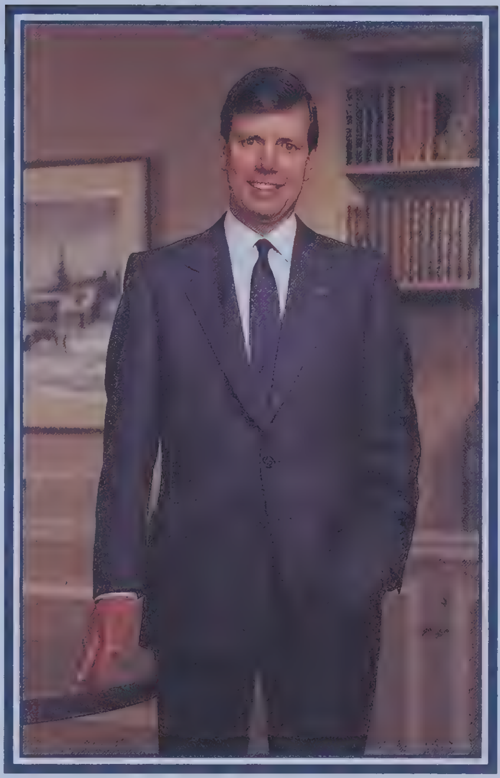
In the corporate and institutional sector, our emphasis will be on fee-generating services, which require less capital than lending services. We'll be placing a priority on products related to electronic cash management and payments, treasury services, corporate finance, and loan origination and redistribution.

While changes to Canadian banking legislation in 1992 will allow us to offer trust and insurance services, we are not going to rush right in: we'll continue to focus on achieving excellence in the provision

of basic banking services. We will consider all opportunities that arise, but we intend to be selective. We may, for example, expand our investment management and trust-related services, but it's unlikely that we'll undertake any new insurance-related activity.

In the longer term, we plan to generate 50% of our earnings from U.S. operations, compared with about 30% in 1991. One way we will meet this objective is by expanding our business with major U.S. corporations. Another way is for Harris to continue the expansion of its community bank network in the Chicago suburbs; adding branches and acquiring additional community banks.

We favour the American mid-west because of its size, its proximity to Canada and, importantly, our established presence there. Further expansion within the mid-west will be eased by changes underway in U.S. legislation that will remove restrictions on interstate banking.



Improving Productivity...

We have always treated expense control as one of our highest priorities. We have made headway, and we will continue to do so. But we have never lost sight of the need to make strategic investments. We must ensure that our employees, our facilities and our systems will support our future growth and development.

In 1991, the Bank invested significantly in the future, including $111 million for investments in customer service, distribution and employee development at the Parent Bank.

We spent about $44 million of that money improving our branch network. We opened 10 new branches, renovated 25 branches, and upgraded many others. We also installed 58 new automated banking machines.

We invested about $38 million of that money in cost reduction and improved customer service through the design and implementation of new and improved systems. For example, we are now processing MasterCard® sales slips with state-of-the-science computer imaging, which is already saving us one full shift a day.

We are also using a new database system to summarize all Bank relationships with each corporate client. The system enables account managers to provide the best combination of services to meet a client's needs and to ensure that the overall relationship is profitable to the Bank.

In addition to the $111 million, we spent another $38 million on our people, conducting customer service, technical and management training programs. The Bank's goal is to provide an average of five days of training per employee per year by 1997. Even as you read this, we are underscoring our deep commitment to training and upgrading by building an unprecedented $40 million employee development centre on Bank-owned land next to the Scarborough Computer Centre just outside Toronto.

This cutting-edge bilingual facility will provide a university-like setting and a common curriculum for employees from across Canada and around the world. They will experience very full days together, learning more of what it means to be a Bank of Montrealer.

Human Resourcing...

As you know, the Bank's continuing success depends on how well our people perform their jobs. We are committed to attracting the best people and to giving them the best training and providing them with a work environment full of creative challenges.

As the crest of the baby boom wave rolls on, and the entry-level labour pool dries up, good people are going to be harder to find — and just as hard to keep. If we are going to succeed in the 1990s, we have to pay very careful heed to the aspirations of employees, both current and prospective. Whoever attracts and promotes the most talented people will command a sustainable competitive advantage.

That's why, in 1991, we began that invigorating process of correcting our most serious human resources problem, the inequality of women in our workplace: despite the fact that 75% of our employees are women, they comprise only 9% of our executives, only 13% of senior managers and only 34% of middle managers.

The President's Task Force on the Advancement of Women in the Bank reported back in November, after almost a year of hard and very productive work. It both identified the barriers to women's advancement and recommended ways to eliminate them. A ground-breaking report was followed by the establishment of an Advisory Council on the Equitable Workplace and the creation of a new executive position with responsibility for workplace equality.

We have moved into an era when employees are demanding more responsiveness from their employers. What employers expect in return — and what other advanced companies are in fact getting — is higher morale, commitment and productivity. By taking the bold steps we're taking, we will get the workforce we deserve — the workforce you deserve.

Continuously Improving...

Last year, we told you in our Annual Report that one of our central strategies for 1991 was to give the most committed professionals in the industry the tools to do the job and then let them get on with it. Well, that's just what we did and that's just what they did. Analyse our performance in more detail on the following pages, and I'm confident you'll agree that our strategy is working.

As we progress through our 175th anniversary year, it is fitting to contemplate our accomplishments, the traditions we have embraced and those we have created. This past year, like those that have gone before it, was marked by its own set of special achievements. But as good as 1991 was, we believe that the Bank's best years are yet to come.

F. Anthony Comper
President and
Chief Operating Officer

Financial Goals and Measures

Bank of Montreal's financial goals balance profitability and prudential concerns. Our objective is to safeguard depositors' funds while providing an excellent return to investors. The primary goal of our financial strategy is to increase shareholder value.

This requires superior performance on a number of key financial measures. The graphs and statistics on the following three pages assess Bank of Montreal's performance on these measures by comparison to the six largest chartered banks in Canada.

The Bank's goal is to rank consistently within the top tier (top two) of these six banks in all of these measures. The corporate standard is to achieve performance at least equal to their average.

Financial Goals and Measures

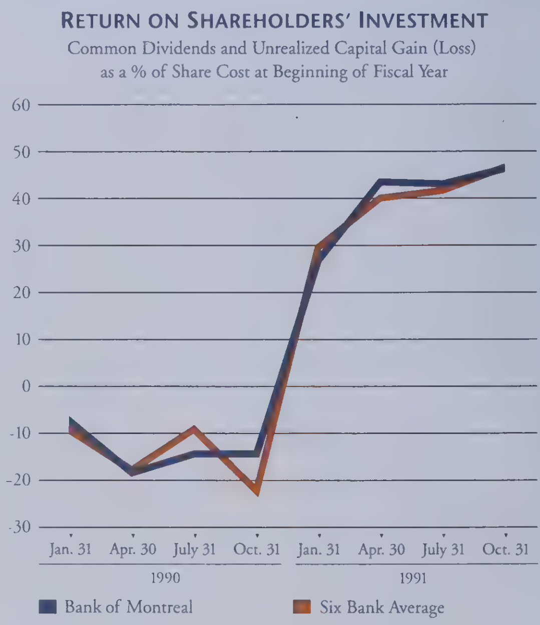
Bank of Montreal's overall performance was better than the average of the six banks during 1991, which resulted in its ranking being improved or maintained for all but two of the financial goals and measures.

	Bank of Montreal Performance 1991	**Six Bank* Average 1991**	**Rank 1991**	Rank 1990
Return on Shareholders' Investment	**46.3%**	**46.5%**	**3rd****	2nd
Profitability	**15.0%**	**14.0%**	**3rd**	3rd
Earnings Growth	**13.9%**	**3.9%**	**2nd**	NM
Productivity	**65.2%**	**60.8%**	**6th**	6th
Capital	**8.82%**	**8.94%**	**4th**	1st
Asset Quality	**0.58%**	**0.70%**	**1st**	1st
Liquidity	**31.9%**	**19.9%**	**1st**	1st

*Bank of Montreal, Royal Bank, Canadian Imperial Bank of Commerce, Bank of Nova Scotia, Toronto Dominion Bank and National Bank.
**Bank of Montreal ranked second for return on investment for the two-year period ending October 31, 1991.
NM – Not meaningful.

The price of Bank of Montreal's common shares increased by $10.38 to $37.38 during the 1991 fiscal year. This increase, together with the excellent dividend yield, produced a total return of 46.3% based on the share price at the beginning of the year. This was the best return for the past ten years. The return for the first two years of this decade averaged 11.2% – the second best of the six banks. The graph illustrates cumulative quarterly industry performance during this period using the opening share price in each fiscal year as a base.

Additional discussion on page 32.

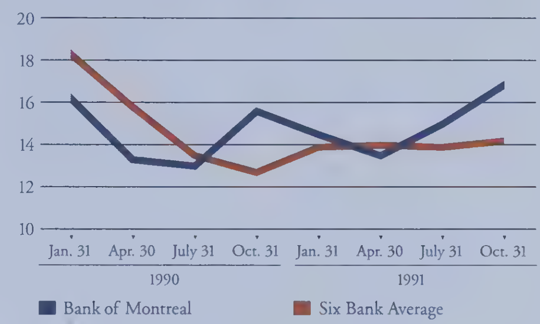


Profitability, as measured by return on average common equity, was 15.0% for 1991, above the 14.6% achieved in 1990 despite higher levels of equity and the negative effects of the recession on loan losses during 1991. Bank of Montreal's return on equity in 1991 exceeded the 14.0% average of the six banks.

Additional discussion on page 33.

PROFITABILITY – 15.0% RETURN ON EQUITY

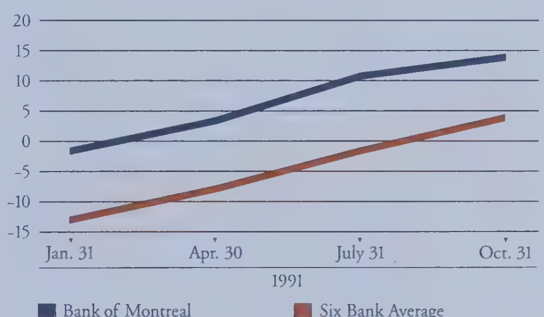
Net Income for Common Shareholders
as a % of Average Common Equity



The Bank earned a record $595 million in 1991, compared with $522 million in 1990. Earnings in 1991 were nearly 14% higher than in 1990 compared with an average increase in the six major banks of 3.9%. The graph provides the cumulative earnings growth trend for each quarter of 1991 compared with the same quarter in 1990 for Bank of Montreal and the average of the six banks.

Additional discussion on page 37.

EARNINGS GROWTH – NEARLY 14%

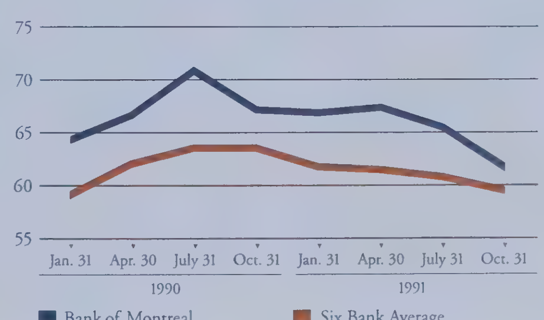


Productivity is measured by the expense incurred to generate each dollar of revenue (net interest income and other operating income). Productivity improves as this ratio declines. The Bank's expense to revenue ratio was 65.2% for 1991, compared to 60.8% for the six banks. However, the ratio improved from 1990 and the gap to the average of the six banks continued to narrow. Since 1987, that gap has been reduced by 57%, which is the equivalent of increasing revenues by $330 million or removing $235 million (in 1991 dollars) from our expense base.

Additional discussion on page 42.

PRODUCTIVITY – CONTINUING TO CLOSE THE GAP

Expenses as a % of Revenues

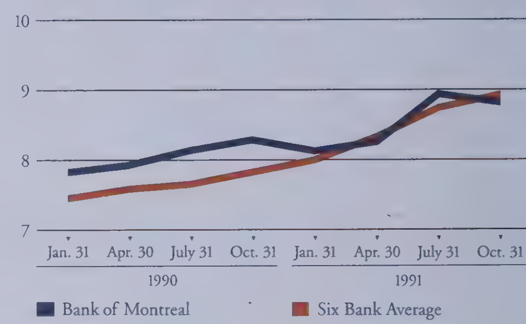


The Bank strengthened its capital base during 1991 by the issuance of new preferred shares and subordinated debentures and through the retention of over $290 million of earnings. Common shareholders of the Bank reinvested some 40% of their dividends, which further increased the capital base. The Bank's capital ratio was 8.8% (10.5% on the basis of current United States guidelines) at October 31, 1991, well above the 8% regulatory requirement.

Additional discussion on page 44.

CAPITAL – GETTING STRONGER

Capital as a % of Risk-Adjusted Assets

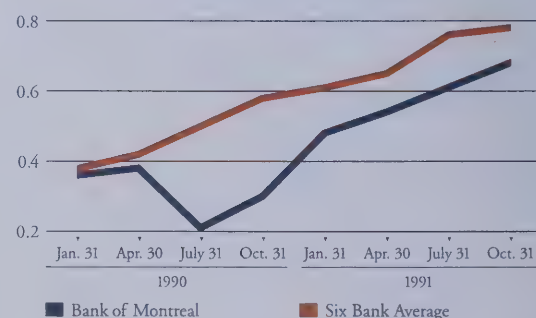


Asset quality, as measured by provision for credit losses relative to average total loans, improves as this ratio declines. The general increase in this ratio during 1991 reflects the weakened financial condition of many borrowers as a result of the recession in North America which began in 1990. The Bank's asset quality withstood these pressures well and remained the strongest of the six major banks. Asset quality is also measured by the proportion of total loans that are non-performing. At year-end 1991, Bank of Montreal's level was 2.1%, which was also the best among the six major banks.

Additional discussion on page 46.

ASSET QUALITY – REMAINING STRONG

Provision for Credit Losses
as a % of Average Loans (Non-LDC)

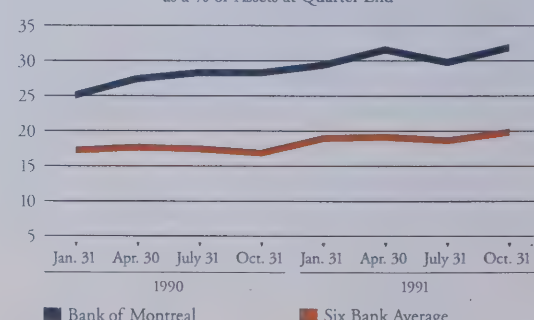


Liquidity is measured by the proportion of cash resources and securities to total assets. The Bank continues to have the highest level of liquidity among the six major banks. This offers significant flexibility to respond to future loan demand and helped us to reduce loan interest rates in Canada over the past year. The general level of liquidity in the industry increased during 1991, partly as a result of higher amounts invested in money market assets, which were particularly attractive due to the declining interest rate environment.

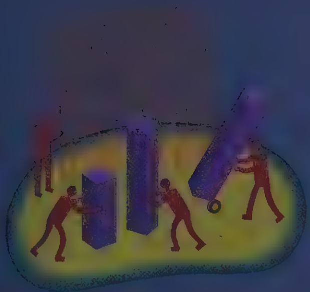
Additional discussion on page 56.

LIQUIDITY – SUBSTANTIAL FLEXIBILITY AND STRENGTH

Cash and Securities
as a % of Assets at Quarter End



Management Analysis of Operations



This management analysis of operations provides shareholders and potential investors with management's perspective on the earnings and financial condition of Bank of Montreal for the year ended October 31, 1991. The analysis is structured around the Bank's financial goals and measures described in the previous section of this Report. Summary financial statements and references to the detailed analysis are provided below.

Earnings
($ in millions)

Net interest income (a)(b)	2,776
Other operating income (b)	1,249
Foreign currency translation loss	(30)
Total Revenue	3,995
Provision for credit losses	337
Non-interest expense	2,605
Provision for income taxes (a)	452
Minority interests	6
Net Income	595

(a) Adjusted to a taxable equivalent basis (TEB) as discussed on page 37.

(b) Certain loan fees were reclassified from other operating income to net interest income in 1991 in accordance with accounting requirements. Prior years' data has been restated.

The above notes apply to all earnings data in the Management Analysis of Operations unless otherwise stated.

Financial Position at Year-End
($ in millions)

Assets		**Liabilities and Capital**	
Liquid assets	31,470	Deposits	82,789
Performing loans	58,907	Other liabilities	9,816
Non-performing loans	1,264	Subordinated debt	1,570
Other assets	7,084	Share capital and Retained earnings	4,550
	98,725		98,725

Return on Shareholders' Investment – One of the Best

Chart 1
DIVIDEND YIELD
On Share Price
At Beginning of Fiscal Year
For the Year Ended October 31
(%)

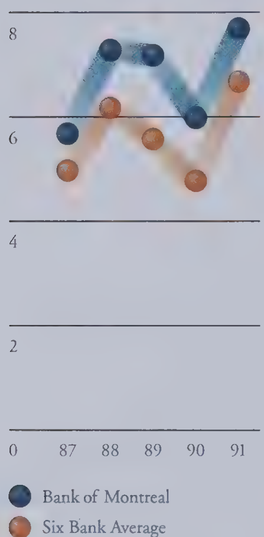
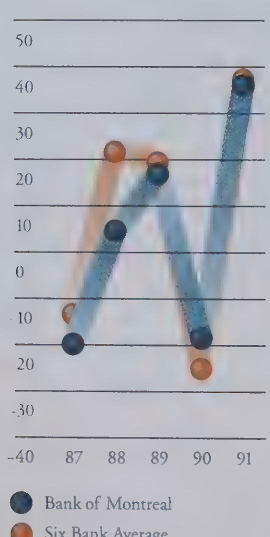


Chart 2
CAPITAL GAIN (LOSS)
As % of Share Price
At Beginning of Fiscal Year
For the Year Ended October 31



The return from an investment in shares consists of the total of dividends earned and the capital gain or loss on the shares over a specific period. Since November 1, 1989, when the Bank's financial goals and measures were adopted, the Bank has been working towards providing shareholders with a return on investment which is consistently one of the two highest among the six largest Canadian banks. This goal was first achieved early in 1991 and, by the end of the fiscal year, the Bank reported the second highest return for the six banks for the two-year period.

For the year ended October 31, 1991, return on investment for all stocks was generally positive as the Toronto Stock Exchange (TSE) 300 Index increased by 14%. The index of all bank stocks increased by 37%. The price of Bank of Montreal's shares increased by 38%, outperforming both the TSE 300 and the bank index in fiscal year 1991 and over the combined 1990/1991 fiscal years.

Table 1
RETURN ON INVESTMENT IN BANK OF MONTREAL COMMON SHARES
For the Year Ended October 31

	1990	**1991**	Total 2-year period
Opening price – start of fiscal year	$34.00	**$27.00**	
Closing price – end of fiscal year	27.00	**37.38**	
Capital gain (loss)	$ (7.00)	**$10.38**	$3.38
Return on Investment (% of opening price)			
Capital gain (loss)	(20.6)%	**38.4%**	9.9%
Dividend yield	6.2	**7.9**	6.2
Total – Annualized	(14.4)%	**46.3%**	11.2%
Price/Earnings Multiple	6.4	**8.1**	
Market to Book Value	0.90	**1.16**	

ONE OF THE BEST IN THE INDUSTRY.

The Bank's share price appreciation during 1991 resulted in an increase in the price/earnings multiple (i.e. closing share price divided by basic earnings per share) at year-end from 6.4 in 1990 to 8.1 in 1991. The market value of the Bank's common shares increased by over $1 billion by year-end to $4.5 billion. The market to book value ratio (i.e. closing share price divided by common shareholders' equity per share) increased from 0.90 to 1.16.

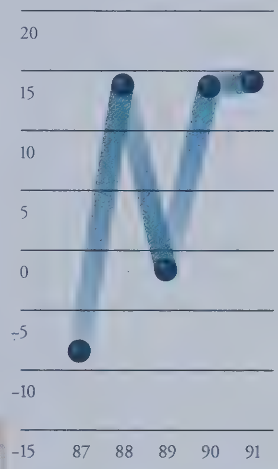
This investor confidence in the Bank's shares reflects the steady improvement in its financial performance and condition. The elements of that performance are discussed in the following sections.

Profitability – 15.0% Return on Equity

Return on equity relates the earnings generated for common shareholders (i.e. net income less dividends paid to preferred shareholders) to common share capital and retained earnings (i.e. the book value of the common shareholders' investment). Return on equity is the Bank's key measure of profitability since it can be used to make comparisons of performance to other organizations, regardless of size or industry. Changes in other profitability measures such as earnings growth and productivity are also reflected in return on equity.

The Bank exceeded its short-term objective of equalling the average return on equity of the six largest Canadian banks. The Bank's goal is to rank first or second among this group. In 1991, Bank of Montreal's return on equity was 15.0%, above its 1990 level despite the higher loan losses caused by the recession and an increase of 11% in common shareholders' equity. Earnings per share increased $0.43, or 10%.

Chart 3
RETURN ON EQUITY
For the Year Ended October 31
(%)



RETURN ON EQUITY IMPROVED DESPITE THE RECESSION.

Table 2
FINANCIAL PERFORMANCE
For the Year Ended October 31

	1987	1988	1989	1990	**1991**
Return on Equity (%)	(9.3)	14.7	(2.5)	14.6	**15.0**
Basic Earnings per Share ($)	(3.19)	4.38	(0.79)	4.20	**4.63**
Net Income (Loss) ($ in millions)	(242)	500	(39)	522	**595**
Common Shareholders' Equity at Year-End ($ in millions)	3,013	3,334	3,097	3,451	**3,832**

Profitability by Major Entity

All of the Bank's major entities except its Brazilian subsidiary, BAMI, made positive contributions to the overall profitability of the Bank. As explained later in this section, effective August 1, 1991, the Bank changed to the cost method of accounting for BAMI, so that only nine months of 1991 BAMI results are included in Total Bank earnings.

Bank of Montreal (Parent)

Parent Bank operations include the Bank's consumer and small to medium-sized business banking services, its lending and treasury services for large North American corporations, and the portfolio of loans to lesser developed countries.

Parent Bank earned $479 million in 1991, an increase of $78 million, or 20% from 1990. These earnings represent 80% of the Bank's after-tax earnings. Earnings benefitted from growth in loans in Canada of 11%, higher money market volumes and interest margins, an increase in fee and other operating income of 6%, and containment of expense growth to 6%.

Within Parent Bank, the Personal and Commercial Financial Services group manages the Bank's Canadian consumer and small to medium-sized commercial operations including branches, automated banking machines, and MasterCard services. Revenues contributed by the group in 1991 were up 12% from last year mainly due to higher loan volumes. The Personal and Commercial Financial Services group strengthened its commitment to customer service by improving branch facilities, expanding staff training and increasing decision-making authority at the community and branch level. These efforts were rewarded with a significant amount of new business.

Table 3

BANK OF MONTREAL (PARENT)

For the Year Ended October 31

($ in millions)	1990	**1991**
Net interest income	1,830	**2,178**
Other operating income	709	**752**
Total Revenue	2,539	**2,930**
Provision for credit losses	96	**241**
Non-interest expense	1,714	**1,825**
	729	**864**
Income taxes and minority interests	328	**385**
Net Income	401	**479**
Average Assets ($ in billions)	66.0	**76.2**

UP OVER 19% DUE TO REVENUE GROWTH AND GOOD EXPENSE MANAGEMENT.

Parent Bank's Corporate and Institutional Financial Services group manages the corporate and institutional business. This business mainly consists of traditional banking relationships with government and large corporate clients in North America, electronic cash management and payment services, treasury services, and asset origination and redistribution activities. The Corporate and Institutional Financial Services group experienced 9% growth in revenues in 1991. During 1991, the group restructured its organization to improve service to both suppliers and borrowers of funds and throughout the year the Treasury money market operations area took advantage of declining interest rates by investing in assets which were repricing less rapidly than the liabilities used to fund them.

Inflation, increased volumes, and higher government levies put pressure on the Bank's non-interest expenses. However, increased automation and tight cost control held year-over-year expense growth to about 6%.

Harris Bankcorp, Inc.

Harris Bankcorp, Inc. (Harris), a wholly-owned subsidiary, is a major United States mid-west bank with assets of $15.4 billion (Canadian dollars). Harris and its 13 bank subsidiaries provide personal and corporate banking and trust services. Harris administers trust assets of more than U.S. $100 billion, ranking in the top twenty in the United States in discretionary trust assets under administration. Harris has been steadily growing its banking business through acquisitions of small banks in communities in the greater Chicago area with the result that in 1991 community banking accounted for approximately 21% of its assets and 24% of its earnings.

Table 4

HARRIS BANKCORP, INC.

For the Year Ended October 31

($ in millions)	1990	**1991**
Net interest income	480	**526**
Other operating income	306	**335**
Total Revenue	786	**861**
Provision for credit losses	70	**90**
Non-interest expense	546	**582**
	170	**189**
Income taxes	74	**72**
Net Income	96	**117**
Average Assets ($ in billions)	14.0	**14.7**

UP OVER 21%.

Harris contributed $117 million to the Bank's results in 1991, an increase of $21 million from 1990. Each year contained noncomparable factors which, however, were largely offsetting. In 1990, one-time severance costs of about $20 million were incurred as a result of an 8% reduction in staff at Harris, and in 1991, the downturn in the economy caused a $20 million increase in the provision for credit losses.

Net interest income increased 10%, mainly as a result of wider spreads and 9% loan growth. Harris' net interest spread widened to 3.59% from 3.43% as it was able to capitalize on declining interest rates (see page 38 for further details on net interest spread). Lost revenues from non-performing loans, which increased $15 million to $44 million in 1991, partially offset the benefit of declining interest rates.

Harris' other operating income was $335 million, up 9% from 1990. Credit card fees increased 26% mainly due to the purchase of a U.S. $200 million credit card portfolio last year. Higher activity fees and trust income also contributed to the increase.

Non-interest expense growth was 7% mainly due to the acquisition, late in 1990, of two community banks and the credit card portfolio.

Harris reported a total risk-based capital ratio (see definition on page 44, calculated using U.S. guidelines) of 8.85% at year-end, which exceeded regulatory requirements.

The Nesbitt Thomson Corporation Limited

The Nesbitt Thomson Corporation Limited (Nesbitt), a 75%-owned subsidiary, is a major fully integrated Canadian investment dealer with just under 400 investment advisors in Canada and operations in the United States and the United Kingdom. Nesbitt provides investment advice to its clients and engages in the trading, underwriting and distribution of securities. Despite generally depressed conditions in the securities markets since its acquisition in 1987, Nesbitt has been profitable every year.

Table 5

THE NESBITT THOMSON CORPORATION LIMITED

For the Year Ended October 31

($ in millions)	1990	**1991**
Net interest income	30	**58**
Other operating income	126	**154**
Total Revenue	156	**212**
Non-interest expense	149	**174**
	7	**38**
Income taxes	2	**16**
Net Income	5	**22**
Average Assets ($ in billions)	1.8	**2.6**

FOURFOLD INCREASE DUE TO FIXED INCOME AND RETAIL ACTIVITY.

Nesbitt achieved earnings of $22 million in 1991, compared with $5 million in 1990, reflecting higher revenues from fixed income and retail brokerage. Net interest income increased by $28 million (93%) mainly due to higher revenues from fixed income activities, which increased as a result of the significant decline in interest rates during the year. Nesbitt's retail brokerage activity grew during the year as lower interest rates restored some confidence to the marketplace. The increased retail activity resulted in higher fee income and commissions.

Banco de Montreal S.A.

Banco de Montreal S.A. (BAMI) is a commercial and investment bank subsidiary in Brazil which Bank of Montreal has owned since 1980. Effective August 1, 1991, the Bank changed its method of accounting for its investment in BAMI, from the consolidation method to the cost method. This change was necessary because of the effect of the increasingly restrictive Brazilian regulatory environment in Brazil on the Bank's ownership of BAMI (see note 2 to the financial statements on page 73). Consequently, from the beginning of the fourth quarter 1991, dividends from BAMI will be the only BAMI-related income in the Bank's consolidated results. No dividends were received in the fourth quarter of 1991.

The Bank incurred a loss of $23 million on its investment in BAMI for the first nine months of 1991, compared with earnings of $20 million for 1990. This was mainly due to a dramatic reduction in net interest income. Net interest spreads were narrowed severely when the Brazilian government intervened to lower interest rates on securities which made up a substantial part of BAMI's portfolio and volumes were low because of continued weakness in the Brazilian economy. The $20 million (45%) decrease in BAMI's non-interest expenses reflects reductions in staff and premises in response to the general slowdown in activity.

The net income shown in Table 6 includes the results of regular operations as well as the effects of changes in the value of the Brazilian currency on the Bank's investment in BAMI. Since the Brazilian cruzeiro has steadily depreciated in value over the past several years, the foreign currency translation adjustment has been negative. This adjustment was reduced substantially in 1991 due to lower rates of currency devaluation during the year and a lower level of assets subject to currency risk.

Table 6

Banco de Montreal S.A.

For the Year Ended October 31

($ in millions)	1990	**1991**
Net interest income	266	**14**
Other operating income	17	**8**
Foreign currency translation loss	(111)	**(30)**
Total Revenue	172	**(8)**
Provision for credit losses	3	**6**
Non-interest expense	44	**24**
	125	**(38)**
Income taxes and minority interests	105	**(15)**
Net Income	20	**(23)**
Average Assets ($ in billions)	0.7	**0.4**

Earnings Growth – Nearly 14%

Consolidated net income for 1991 was $595 million, up $73 million or nearly 14% from last year. The increase reflects productivity improvements resulting from a faster rate of growth for revenues than expenses. This was partially offset by higher loan losses due to the effects of the recession in North America. A discussion of the improvement in revenues follows below, while non-interest expenses are covered in the Productivity section which starts on page 42. Loan losses are discussed in the Asset Quality section which starts on page 46.

Revenue Improvement

The Bank's revenue comprises interest and fee-based income. In 1991, total revenue (on a taxable equivalent basis) was $3,995 million, up 9% from 1990. The factors contributing to this increase are described under "Net Interest Income and Spread," below, and "Other Operating Income" on page 40.

Table 7

REVENUES

For the Year Ended October 31

($ in millions)	1987	1988	1989	1990	**1991**	Growth (decrease) 1991 over 1990 (%)
Net interest income as reported	2,117	2,526	2,527	2,535	**2,708**	6.8
Taxable equivalent adjustment	138	86	73	71	**68**	(4.2)
	2,255	2,612	2,600	2,606	**2,776**	6.5
Other operating income	880	1,095	1,076	1,158	**1,249**	7.9
Foreign currency translation loss	(27)	(53)	(90)	(111)	**(30)**	(73.0)
Total Revenue	3,108	3,654	3,586	3,653	**3,995**	9.4

REVENUES INCREASED 9% DESPITE $180 MILLION LOWER REVENUES FROM BAMI.

Net Interest Income and Spread

Net interest income is the difference between interest earned on loans and securities and interest paid on the deposits and subordinated debt which fund these assets. For the purpose of analysis, net interest income is adjusted to a taxable equivalent basis. The taxable equivalent adjustment ($68 million in 1991) increases interest income to the amount that would result if income from tax-exempt assets were taxable (and increases the tax provision by the same amount). This results in a better reflection of the economic yield on these instruments.

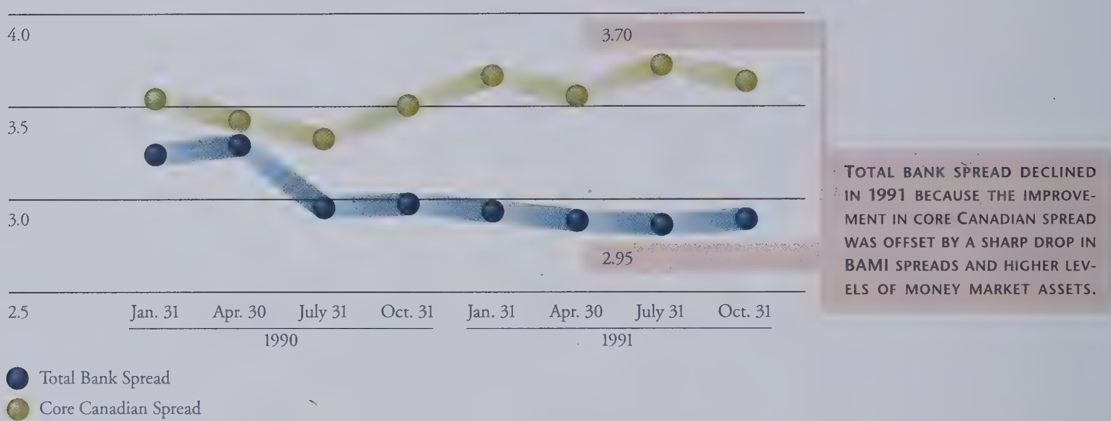
Net interest income was $2,776 million in 1991, reflecting a 7% increase from last year which can be attributed to a combination of several factors. The main contributor to the increase was asset growth; however, the benefit of this growth was moderated by the disproportionately high growth in lower yielding mortgage and money market assets. Competitive pricing pressures in the personal and commercial deposit markets and an increase in the proportion of higher priced fixed term deposits resulted in a narrowing of the margin between deposit and loan rates. The Bank was able to reduce the effect of this tighter pricing by positioning the terms to maturity of its deposits and loans to take advantage of declining interest rates. Another significant negative factor was the $252 million reduction in BAMI's net interest income, as shown in Table 6.

During 1991, the Bank's overall asset growth was 13% and loans grew by 9%. Above average growth was experienced in mortgages which were up 16%, and money market assets which increased by over $5 billion. The change in asset mix which resulted from this disproportionate growth had a negative effect on net interest spread. The reduction in BAMI's net interest income had a similar effect.

Chart 4

NET INTEREST SPREADS

For the Three Months Ended
(%)



Net interest spread is the net interest income (adjusted to a taxable equivalent basis) divided by average total assets. As indicated in Chart 4, the combination of the aforementioned factors produced spreads averaging 2.95%, which is somewhat lower than 1990. However, spreads earned in the Bank's core Canadian business improved in 1991. These spreads, which exclude the discretionary money market assets and revenues, are also depicted in Chart 4.

Chart 5

FACTORS INFLUENCING CORE CANADIAN SPREADS

For the Three Months Ended
(%)

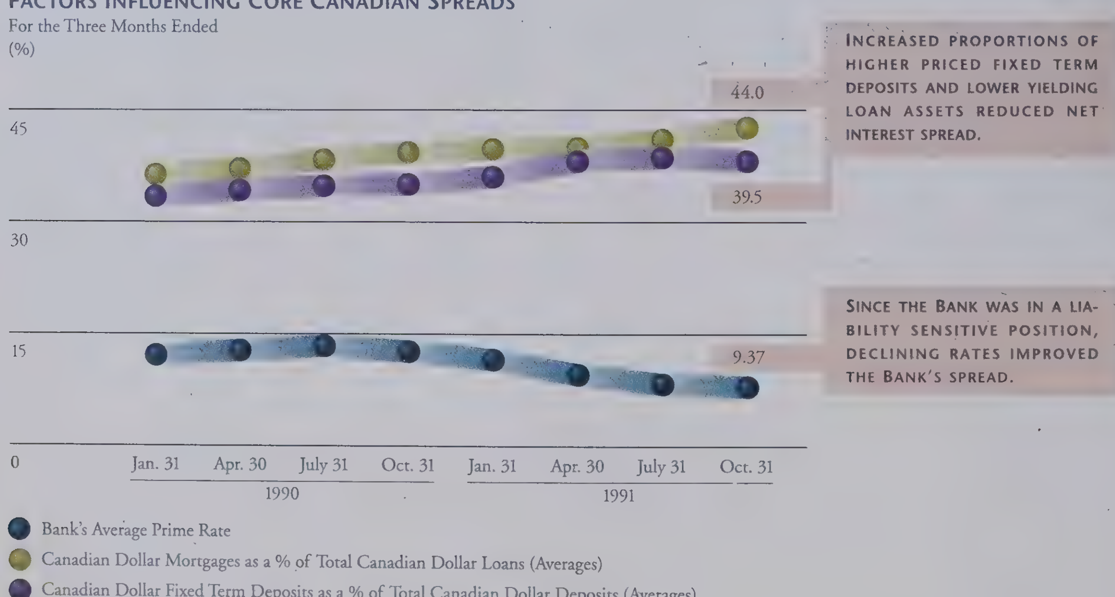


Chart 5 shows the trends for three important factors which influenced the average spread in the core Canadian business. As mentioned earlier, the increasing proportion of mortgages and fixed term deposits tended to reduce average spreads, while the decline in interest rates had a positive effect.

While a large portion of the benefit of lower interest rates was passed on to borrowing customers, some gains were made as a result of the structure of the Bank's balance sheet. The sensitivity of the Bank's earnings to changes in interest rates depends upon the amounts of assets and liabilities repricing in the same time periods. Where a difference exists in a particular period, this is termed a sensitivity gap. When repricing liabilities exceed repricing assets in a period, net interest spread will widen as interest rates decrease. That is, the interest cost of deposits will decrease more than the interest yield on assets. Conversely, where a gap is caused by repricing assets exceeding repricing liabilities, spreads will narrow when rates decrease.

Table 8 shows the Bank's interest rate gap positions at the end of October 1991, separating Canadian dollars and other currencies. The October 31 position is generally similar to that which existed during the year. The Bank had more liabilities than assets subject to repricing within a year, hence spreads improved. This improvement was partially offset by the increasingly competitive retail marketplace which resulted in tighter pricing for deposits and loans, and had a negative effect on spreads.

Table 8

INTEREST RATE SENSITIVITY POSITION

As at October 31, 1991

($ in billions)	0 to 3 months	3 to 6 months	6 to 12 months	Total within 1 year	Over 1 year	Non-interest sensitive	Total
Canadian Dollars							
Assets	26.6	5.1	7.2	38.9	12.6	8.3	59.8
Liabilities	34.2	3.6	3.9	41.7	4.9	13.2	59.8
Interest Rate Sensitivity Gap	(7.6)	1.5	3.3	(2.8)	7.7	(4.9)	0.0
Other Currencies							
Assets	24.4	5.1	3.0	32.5	2.7	3.7	38.9
Liabilities	30.8*	1.3	0.6	32.7	1.0	5.2	38.9
Interest Rate Sensitivity Gap	(6.4)	3.8	2.4	(0.2)	1.7	(1.5)	0.0

The data shown reflect adjustments made for projected prepayments on loans and mortgages, and early redemptions of term deposits, where applicable. The positions also reflect the effect of off-balance sheet transactions, such as interest rate swaps, futures, and forward rate agreements, undertaken as part of the Bank's management of interest rate risk.

As part of its Treasury operations, the Bank took advantage of declining interest rates by increasing the liability sensitivity of its money market operations. Longer-term assets were purchased and funded with shorter-term borrowings. As rates declined, both in Canada and the United States, the cost of funding decreased faster than asset yields and since these investments require very little capital, they earned a good return on equity. However, their absolute spreads are lower than those earned on retail and commercial loans and, therefore, as the proportion of money market assets to total assets increased, the average total spread was reduced.

BAMI's interest spreads were severely squeezed in 1991, falling from 39% in 1990 to under 4% in 1991, thereby reducing BAMI's contribution to total Bank spreads. This decrease was mainly due to the Brazilian government's intervention in the market which resulted in a sudden and dramatic decrease in interest rates earned on government securities.

Table 9

YIELD, COST AND MIX OF ASSETS AND LIABILITIES

For the Year Ended October 31
($ in millions)

INCREASE DUE MAINLY TO MONEY MARKET INVESTMENTS.

	1990			1991		
	Average balances	Average rate (%)	Mix (%)	**Average balances**	**Average rate (%)**	**Mix (%)**
Assets						
Deposits with other banks	7,561	13.07	9.2	**11,093**	**8.50**	**11.8**
Securities	12,197	12.30	14.8	**15,367**	**9.54**	**16.3**
Loans						
Canadian Dollars						
• Mortgages	13,572	11.41	16.5	**15,801**	**11.38**	**16.8**
• Individuals	9,347	14.03	11.3	**9,768**	**12.97**	**10.4**
• Other loans	12,002	14.40	14.5	**12,210**	**11.13**	**13.0**
	34,921	13.14	42.3	**37,779**	**11.71**	**40.2**
Other Currencies	19,049	13.27	23.1	**20,445**	**9.67**	**21.7**
Total Loans	53,970	13.19	65.4	**58,224**	**10.99**	**61.9**
Total Earning Assets	73,728	13.03	89.4	**84,684**	**10.40**	**90.0**
Other assets	8,724		10.6	**9,349**		**10.0**
Total Assets	82,452	11.65	100.0	**94,033**	**9.37**	**100.0**
Liabilities						
Deposits						
Canadian Dollars						
• Demand	2,951	2.69	3.6	**2,952**	**2.12**	**3.2**
• Notice	22,860	9.21	27.7	**23,341**	**6.32**	**24.8**
• Term	15,623	10.50	19.0	**18,913**	**9.92**	**20.1**
	41,434	9.23	50.3	**45,206**	**7.55**	**48.1**
Other Currencies	27,997	10.26	33.9	**33,594**	**6.88**	**35.7**
Total Deposits	69,431	9.65	84.2	**78,800**	**7.27**	**83.8**
Subordinated debt and other interest-bearing liabilities	2,167	13.94	2.6	**2,420**	**12.75**	**2.6**
Total Interest-bearing Liabilities	71,598	9.78	86.8	**81,220**	**7.43**	**86.4**
Other liabilities	6,969		8.5	**8,642**		**9.2**
Shareholders' equity	3,885		4.7	**4,171**		**4.4**
Total Liabilities and Shareholders' Equity	82,452	8.49	100.0	**94,033**	**6.42**	**100.0**
Net Interest Spread		3.16%			**2.95%**	

Other Operating Income

Other operating income is derived from fee-based services and includes fees from operating services, credit cards, loan administration, income from foreign exchange, trust income, and securities and safekeeping fees. Other operating income has become an increasingly important component of earnings, contributing 31% to total revenue in 1991, compared with 28% in 1987. This trend is expected to continue in future years as the Bank continues to offer new fee-generating products and services to customers in order to best serve their needs without the Bank having to maintain the capital necessary to support assets on the balance sheet.

The major components of other operating income are shown in Table 10. In 1991, other operating income totalled $1,249 million, an increase of $91 million, or 8% from 1990.

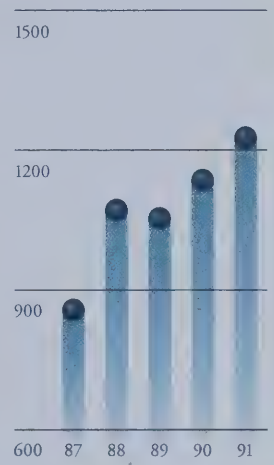
The highest rates of growth were in securities and safekeeping, merchant credit card sales volumes, loan fees, operating services fees, and other revenues, while foreign exchange revenues were slightly lower than in 1990.

Higher securities and safekeeping revenues can be mainly attributed to Nesbitt's increased activity in the retail securities and bond markets. Declining interest rates and the recession persuaded many investors to reorganize their portfolios. The resulting market activity increased Nesbitt's fee income.

Credit card income increased 9% from 1990 mainly as a result of the Harris acquisition of a credit card portfolio in the latter part of 1990, an increase in merchant sales volumes and card fee revenues. The increase in merchant sales volumes reflects the Bank's success in expanding the number of merchants using Bank of Montreal MasterCard and increased volumes by existing merchants. While there is still no fee charged for the Bank's standard MasterCard, the Bank offers the Gold MasterCard with an attractive package of services priced well below the market average. Bank of Montreal is the fifth largest MasterCard issuer in the world and is the market leader in affinity cards in Canada, with 250 groups and more than three-quarters of the potential affinity market.

Operating services revenue increased mainly due to higher transaction volumes. As a matter of interest, our pricing for the services most commonly used by Canadian consumers provides the lowest cost, best value of the five largest banks. While 1991 foreign exchange revenues decreased 2% from 1990, they were up 10% from the average over the last four years.

Chart 6
OTHER OPERATING INCOME
For the Year Ended October 31
($ in millions)



Most of the increase in the category "Other" in Table 10 was due to gains on interest rate swaps resulting from interest rate movements in prior years as well as in 1991. Current market interest rates are used to value outstanding interest rate swaps arranged for clients who need to manage their exposure to interest rate and foreign currency fluctuations. Previously, these transactions were valued on an accrual basis.

Table 10
OTHER OPERATING INCOME
For the Year Ended October 31

($ in millions)	1987	1988	1989	1990*	**1991**	Growth (decrease) 1991 over 1990 (%)
Operating services	283	297	302	334	**357**	6.9
Credit card	158	164	161	174	**190**	9.2
Securities and safekeeping	45	160	171	162	**185**	14.2
Foreign exchange	112	129	116	139	**136**	(2.2)
Loan fees	113	124	96	97	**104**	7.2
Trust income	123	126	125	140	**146**	4.3
Other	46	95	105	112	**131**	17.0
Total	880	1,095	1,076	1,158	**1,249**	7.9
Other Operating Income to Total Revenue	28.3%	30.0%	30.0%	31.7%	**31.3%**	

*Foreign exchange revenues relating to interest rate swaps have been reclassified as "other" to conform with 1991 presentation.

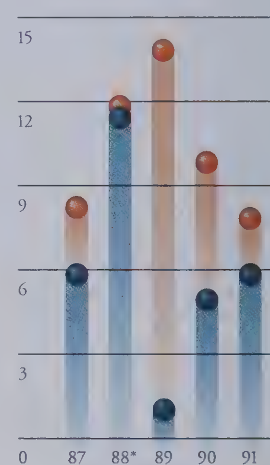
Productivity – Continuing to Close the Gap

The Bank measures its productivity by the ratio of non-interest expenses to revenues (taxable equivalent net interest income and other operating income). In 1991, this ratio was 65.2% – an improvement from the 67.2% experienced in 1990. This improvement was achieved by generating a 9% increase in revenues, while containing expense growth to 6%. The Bank's interim goal is to achieve a productivity ratio at least equal to the average of the six largest Canadian banks by the end of 1993. Thereafter, its goal is to be consistently one of the best two amongst these banks. Our performance in 1991 continued the progress of the past several years in closing the gap with the competition. This is illustrated in the Financial Goals and Measures section on page 29.

Since the productivity ratio is influenced by changes in both revenues and expenses, the Bank seeks improvements in both areas. As described in the Earnings Growth section, the Bank has done much to encourage revenue growth. However, revenues are greatly affected by uncontrollable factors in the Bank's environment and with the ongoing changes in the current North American economy, it may not be possible to maintain high levels of revenue growth. Therefore, the Bank's main strategy for improving productivity is to restructure and reduce its cost base.

These restructuring efforts include: consolidation and automation of the "back-office" areas of the Bank which are responsible for processing the significant volumes of transactions handled daily; reduction of layers of management, and strict control of discretionary expenditures. Restructuring of the "back-office" has been particularly successful. Costs in this area have been reduced by over 7% since 1987 despite inflation of 21% during that period and an increased volume of transactions. These improvements have freed resources to be redeployed to our customer services and reduced the level of non-interest expenses.

Chart 7
EXPENSE GROWTH
For the Year Ended October 31
(%)



Bank of Montreal
Six Bank Average
*See note on page 43

Productivity – Expense Containment

Non-interest expense consists of employee salaries and benefits, premises and equipment costs and all other expenses. In 1991, expenses amounted to $2,605 million, an increase of $151 million or 6% from last year. This expense growth resulted mainly from merit salary increases, additions to Bank facilities, Harris' acquisition of two new community banks and a credit card portfolio in the latter part of 1990, and the new goods and services tax in Canada. These cost pressures were moderated by a variety of actions taken during 1991 to reduce the Bank's cost base. The major components of non-interest expense are detailed in Table 11.

Employee salaries and benefits totalled $1,442 million in 1991, up 4% from 1990, and now represent 55% of total expenses. Merit increases, higher pension costs and higher benefits costs resulting principally from increased unemployment insurance premiums, were the main causes of the increase. The 1990 cost of an 8% reduction in Harris' staff, partially offset these factors.

Revenue output per employee is a critical factor in overall productivity. Our North American operations generated revenue of $2.80 per dollar of employee expense in 1991, compared to $2.55 in 1990. This gain was a significant factor in our overall productivity improvement. Since 1987, the transaction processing group in Parent Bank increased their throughput by over 30%. Efficiencies realized as a result of various programs have enabled the Bank to increase the number of customer service personnel to improve service quality.

Premises and equipment costs increased 10% to $537 million in 1991. This increase reflects significant investments in branch premises and technology to expand the business and improve service to customers. During 1990 and 1991, twenty-two new branches were opened in Canada, bringing the total to 1,186, and many branches were renovated. In 1991, fifty-eight automated banking machines were added to the Bank's Canadian distribution network, increasing the total to 1,221. In addition, several new computer systems have been installed, allowing the Bank to more effectively respond to customer needs.

Other expenses increased $54 million to $626 million in 1991. The major components of this category are shown in Table 11. The increase in "Other" is partially due to the new goods and services tax (GST) which amounted to $20 million in 1991. The GST, deposit insurance premiums and other government levies are discussed on page 58. Increased investment in advertising and promotion activities in 1991, and Harris' acquisition of a credit card portfolio and two community banks in 1990, also added to costs.

Table 11

NON-INTEREST EXPENSE

For the Year Ended October 31

($ in millions)	1987	1988	1989	1990	**1991**	Growth (decrease) 1991 over 1990 (%)
Salaries and Staff Benefits	1,109	1,265	1,291	1,392	**1,442**	3.6
Premises and Equipment						
Rental and depreciation of premises	105	119	120	140	**156**	11.4
Maintenance and repairs	79	81	82	83	**90**	8.4
Property taxes	30	34	34	35	**40**	14.3
Other	78	80	78	76	**82**	7.9
Computer costs	143	161	148	155	**169**	9.0
	435	475	462	489	**537**	9.8
Other						
Communications	99	112	110	118	**125**	5.9
Business and capital taxes	70	50	52	68	**64**	(5.9)
Stationery and printing	41	46	50	52	**49**	(5.8)
Professional fees	43	48	57	51	**55**	7.8
Travel and business development	60	65	63	62	**61**	(1.6)
Canada deposit insurance	26	26	28	30	**33**	10.0
Other	172	210	217	191	**239**	25.1
	511	557	577	572	**626**	9.4
Total	2,055	2,297	2,330	2,453	**2,605**	6.2
Year over Year Growth	6.2%	11.8%*	1.4%	5.3%	**6.2%**	

*The sharp increase in expense growth in 1988 reflects the acquisition of Nesbitt in September 1987.

Summary

Productivity improvement continues to be one of the Bank's highest priorities. Reducing the cost base through a vigorous review of the Bank's structure and its processes and procedures is the surest approach to achieving this objective. The decisions on productivity improvement will continue to be guided by the Bank's overriding concern for improving customer service.

Capital – Even Stronger

The Bank's capital base provides protection for depositors against possible losses resulting from banking activities. In Canada, the adequacy of a bank's capital is measured in accordance with the Office of the Superintendent of Financial Institutions' (OSFI) guideline which is based on international capital standards. Under this guideline, banks are required to maintain a minimum ratio of capital to their risk-adjusted assets. The Bank's capital well exceeds requirements and is expected to continue to do so.

The guideline divides total capital into two tiers. Tier 1 capital consists of common shareholders' equity, qualifying non-cumulative perpetual preferred shares and minority interests, less goodwill. For Canadian purposes, Tier 2 capital consists of cumulative long-term preferred shares and subordinated debt, and does not include revaluation reserves or general loan provisions. Investments in unconsolidated subsidiaries and associated corporations (20%–50% owned) are deducted from the sum of Tier 1 and Tier 2 capital.

In 1991, the requirements for Tier 1 and Total Capital were 3.625% and 7.25% of risk-adjusted assets, respectively. These minimum requirements will increase to 4% and 8% respectively, in 1992. As shown in Table 12, the Bank's capital ratio, at 8.8%, is well in excess of the 1991 and 1992 requirements. These calculations are based on the Canadian capital guideline which is generally more conservative than those of some other countries. For example, based on the United States' guidelines, the Bank's capital ratio was estimated at 10.5%.

Table 12
CAPITAL FUNDS
As at October 31

($ in millions)	1989	1990	**1991**
Tier 1			
Common shareholders' equity	3,097	3,451	**3,832**
Non-cumulative preferred shares	200	200	**450**
Minority interests	43	41	**42**
Less: Goodwill*	–	(61)	**(105)**
Total Tier 1 Capital	3,340	3,631	**4,219**
Tier 2			
Cumulative preferred shares	275	275	**268**
Subordinated debt	1,429	1,565	**1,493**
Total Tier 2 Capital	1,704	1,840	**1,761**
Total Tier 1 and Tier 2 Capital	5,044	5,471	**5,980**
Less: Investment in unconsolidated subsidiary	–	–	**(28)**
Total Capital	5,044	5,471	**5,952**
Risk-Adjusted Assets	63,105	65,959	**67,490**
Risk-Adjusted Capital Ratios			
Tier 1	5.29%	5.51%	**6.25%**
Total	7.99%	8.29%	**8.82%**
Regulatory Required Capital Ratios			
Tier 1		3.625%	**3.625%**
Total		7.25%	**7.25%**

*Under the transitional guidelines, existing goodwill must be deducted as follows: ⅓ in 1990, ⅔ in 1991 and the full amount in 1992.

CURRENT CAPITAL RATIOS EXCEED REGULATORY REQUIREMENTS ESTABLISHED FOR 1992.

The Bank's Tier 1 ratio improved from 5.5% at the end of 1990 to 6.3% in 1991, mainly due to internally generated capital, the issue of $250 million of non-cumulative perpetual preferred shares and $141 million of common shares issued through the Dividend Reinvestment and Share Purchase Plan. The Tier 2 ratio remained virtually unchanged. A private placement of $150 million in subordinated debentures was

made in March 1991 and the Bank began a partial purchase of its Class A Preferred Shares Series 3 in the open market in August. This latter action will reduce the cost of the capital base, thereby enhancing the return on shareholders' equity.

As prescribed by the OSFI guideline, risk-adjusted assets are calculated by applying risk factors, ranging from 0% to 100%, depending upon the deemed credit risk, to the aggregate of balance sheet assets and to the credit risk equivalent of the off-balance sheet exposures.

The Bank's total risk-adjusted assets are shown in Table 13. The year-end 1991 balance sheet assets of $98.7 billion represent only $56.3 billion on a risk-adjusted basis as some assets, such as government securities, are considered to have little or no risk. Off-balance sheet exposures totalled $11.2 billion on a risk-adjusted basis. A description of the nature of some of these off-balance sheet exposures is provided below.

Off-Balance Sheet Activities

The Bank offers a variety of credit instruments and interest rate and foreign currency contracts to enable customers not only to obtain financing, but also to manage their exposure to changing interest and currency rates. These products generate trading and fee income for the Bank and are briefly described below.

Letters of credit and guarantees are mainly conditional commitments made by the Bank on behalf of customers in favour of third parties.

Commitments are credit instruments which allow customers access to funds as required.

Foreign exchange rate contracts provide customers with fixed exchange rates for future dates for quantities of currency and thereby protect the customers from adverse changes in exchange rates.

Interest rate contracts include forward rate agreements, interest rate options and swaps, all of which are designed to allow customers to modify or reduce their exposure to changes in interest rates.

Table 13
RISK-ADJUSTED ASSETS
As at October 31
($ in millions)

	1990				1991
	Risk-adjusted balance	**Balance**	**Credit risk equivalent**	**Risk-weighting (%)**	**Risk-adjusted balance**
Balance Sheet Items					
Cash resources	2,233	**13,607**		**0-20**	**2,357**
Securities	2,998	**17,863**		**0-100**	**2,620**
Mortgages	6,874	**18,047**		**0-100**	**8,178**
Other loans	34,552	**42,124**		**0-100**	**36,325**
Other assets	7,282	**7,084**		**0-100**	**6,805**
	53,939	**98,725**			**56,285**
Off-Balance Sheet Items					
Letters of credit and guarantees	3,017	**4,149**	**3,208**	**20-100**	**2,951**
Commitments	7,210	**47,450**	**6,861**	**0-100**	**6,609**
Foreign exchange rate contracts	1,209	**137,027**	**4,080**	**0-50**	**1,032**
Interest rate contracts	106	**54,862**	**882**	**0-50**	**296**
Other	478	**1,225**	**658**	**0-100**	**317**
	12,020				**11,205**
Total	65,959				**67,490**

The amount of regulatory capital required to support the combined total of risk-adjusted assets of $67.5 billion at year-end 1991 was $4.9 billion. As shown in Table 12, the Bank's total capital exceeded this requirement by over $1 billion.

Asset Quality – Remaining Strong

Asset quality is a function of a bank's lending standards, its diversification policies and the strength of its risk management practices. The combined effectiveness of these factors is reflected in the extent of non-performing loans and ultimately in the provision for credit losses as a percentage of average loans. This latter percentage is the Bank's primary measure of asset quality.

On this basis, the Bank's asset quality was 0.58% in 1991, compared to 0.31% in 1990. This change reflects the effects of the recession which weakened the financial condition of many of the Bank's customers. Despite this, the Bank's ratio continued to be the best among the six largest Canadian Banks, as discussed in the Financial Goals and Measures section on page 30. The Bank's asset quality measure compared very favourably with industry experience in both Canada and the United States.

Total assets at the end of 1991 were $98.7 billion compared with $87.4 billion a year ago, an increase of 13%. The Bank's portfolio, shown in Chart 8, was highly liquid and well-diversified with less than 10% of aggregate exposure in the high-risk areas of commercial real estate financing, leveraged financing and lesser developed country (LDC) loans and securities. Low-risk assets such as cash and securities, and residential mortgages represented 32% and 17% of total assets respectively.

Asset growth was highest in securities (46%) and loans (9%). The growth in securities reflected the higher level of money market activity and the reclassification of Venezuelan loans as securities following the Brady Plan restructuring in the early part of 1991. Particularly good growth was experienced in mortgages. Chart 9 shows the resulting composition of assets.

Details of the geographic distribution of assets by location of ultimate risk are provided in note 8 to the financial statements on page 78. Consistent with the Bank's North American strategy, approximately 88% of assets were located in Canada and the United States. At the end of 1991, assets denominated in Canadian dollars represented over 61% of total assets.

The Bank's loan and mortgage portfolio also represented 61% of assets and is described on the next page. A discussion of cash resources and securities is provided in the liquidity section on page 56. The remaining assets consist largely of bankers' acceptances, land, buildings and equipment, accrued interest receivable, and deferred income taxes. Also included in other assets is goodwill related to the

Chart 8
DIVERSIFIED RISK
As a % of Total Assets
As at October 31, 1991

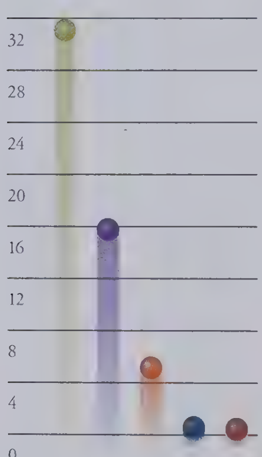


Chart 9
ASSETS
As at October 31, 1991

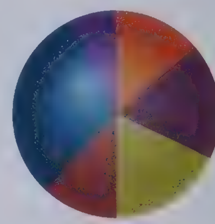
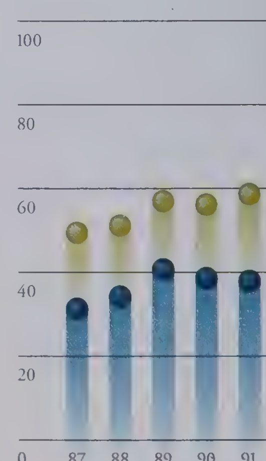


Chart 10
ASSETS
Canadian Dollar Assets
As a % of Total Assets
As at October 31



acquisition of the Bank's subsidiaries. Details on the components of goodwill for each major subsidiary and the remaining amortization periods are provided in note 7 to the financial statements on page 77.

Loans and Mortgages

Building and maintaining a sound and profitable loan portfolio requires strict adherence to lending principles and procedures. The Bank's diversification policies limit risk exposure to separate and connected borrowing entities, particular industries, certain types of usage and individual countries.

The Bank's loan and mortgage portfolio, excluding LDC exposure, at October 31, 1991 amounted to $59.6 billion, net of allowance for credit losses (traditionally referred to as reservations) of $630 million. Total loans grew over 9%, including 17% growth in individual mortgages.

Table 14

Loans and Mortgages Excluding LDC Exposure

As at October 31

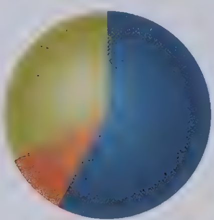
($ in millions)	1990		**1991**	
	$	Mix (%)	**$**	**Mix (%)**
Individuals				
Mortgages	13,398	24.3	**15,657**	**26.0**
Cards	2,726	4.9	**2,705**	**4.5**
Personal loans	8,285	15.0	**8,628**	**14.3**
	24,409	44.2	**26,990**	**44.8**
Financial Institutions	5,655	10.2	**6,017**	**10.0**
Corporate and Commercial				
Real estate	5,476	9.9	**6,072**	**10.1**
Construction (non-real estate)	1,164	2.1	**1,459**	**2.4**
Manufacturing	4,541	8.2	**4,611**	**7.7**
Mining and energy	1,917	3.5	**1,844**	**3.1**
Service industries	2,825	5.1	**3,258**	**5.4**
Retail and wholesale trade	3,334	6.1	**3,630**	**6.0**
Agriculture	1,320	2.4	**1,452**	**2.4**
Transportation, communications and utilities	1,531	2.8	**2,181**	**3.6**
	22,108	40.1	**24,507**	**40.7**
Other	3,009	5.5	**2,718**	**4.5**
Gross Loans and Mortgages	55,181	100.0	**60,232**	**100.0**
Allowance for credit losses	(553)		**(630)**	
Loans and Mortgages, Net of Allowance for Credit Losses	54,628		**59,602**	

SOLID BASE OF INDIVIDUAL LOANS AND GOOD DIVERSIFICATION AMONG BUSINESS SECTORS.

During 1991, concern continued to be expressed about the loan portfolios of a number of commercial banks because of inadequate diversification, including the level of real estate loans, leveraged financing, and lesser developed country exposure. Details of the Bank's exposure in each of these areas follows the discussion of loans to individuals.

Excluding individuals, the Bank continues to maintain exposure to other sectors at no more than approximately 10% of total loans.

Chart 11
LOANS TO INDIVIDUALS
As at October 31, 1991



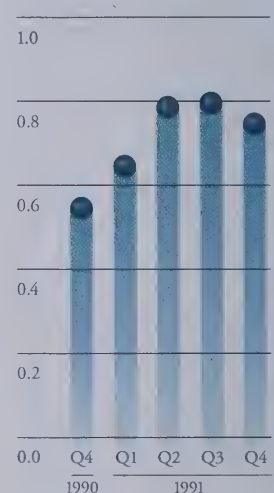
Mortgages (58%)
Cards (10%)
Other (32%)

Loans to Individuals

Loans to individuals amounted to $27.0 billion at the end of the year, up $2.6 billion or 11%. This increase was almost entirely due to individual mortgages which grew 17% during 1991. This excellent rate of growth in mortgage loans resulted in an improvement in the share of the Canadian all-bank market. The very high quality of the mortgage portfolio was reflected in continuing low levels of loan loss experience.

At October 31, 1991, the 90 day and over delinquency ratio for individual loans was 0.77% compared with 0.57% a year ago. This increase reflected the weak economy throughout North America during fiscal 1991. But in the latter half of the fiscal year, the ratio stabilized and declined.

Chart 12
LOANS TO INDIVIDUALS
90 Day & Over Delinquency Ratio



Real Estate Financing other than Mortgages

The Bank's real estate financing other than mortgages totalled $6.6 billion at October 31, 1991, an increase of 12% over last year. Of this amount, $6.1 billion related to real estate loans and the balance was made up mainly of acceptances, guarantees, swaps and letters of credit. Effective management and control was exercised by the Bank to ensure its real estate portfolio was well-diversified by type of property, borrower and geographic location.

Table 15
REAL ESTATE FINANCING
As at October 31
($ in millions)

	1990		**1991**	
	$	Mix (%)	**$**	**Mix (%)**
Tier 1 – Highest quality companies	891	15.1	**820**	**12.4**
North American Operations				
Office (a)	1,598	27.2	**1,872**	**28.3**
Residential (b)	924	15.7	**1,369**	**20.7**
Collateralized by securities other than real estate	294	5.0	**213**	**3.2**
Shopping centres	565	9.6	**644**	**9.8**
Land banking/development	593	10.1	**552**	**8.4**
Industrial buildings	435	7.4	**604**	**9.1**
Other	419	7.1	**466**	**7.1**
International Operations	166	2.8	**65**	**1.0**
Gross Real Estate Financing	5,885	100.0	**6,605**	**100.0**

(a) Office includes buildings, rentals and condominiums.
(b) Residential includes single family units, apartment rentals and condominiums.

As shown in Table 15, at the end of fiscal 1991, $820 million or 12% of total real estate financing was represented by loans to companies of the highest quality (Tier 1). The balance of the portfolio, which was considered to be of average quality, amounted to $5.7 billion, net of allowance for credit losses, and represented 148% of common shareholders' equity.

The geographic distribution of the Bank's real estate exposure in Canada and the United States is shown in Chart 13. Just over half of the Bank's real estate portfolio was in Canada, with most of the balance located in the United States. The remaining exposure was in the United Kingdom and was limited to a small number of top tier, diversified corporations.

The year over year increases in outstanding balances for the office and residential categories were well-spread geographically and relate in large part to drawdowns of committed facilities. In 1991, the residential exposure includes some $300 million of loans of Harris Bank subsidiaries and affiliates.

In Canada, the real estate market has not deteriorated to the same extent as in the United States, but there has been very little activity in this industry. Although the level of interest rates has declined significantly in the past year, consumer confidence has not been totally restored. This has led to continued price weakness and limited sales in the residential market throughout the country. Exposure to residential condominiums represented only about 4% of the total real estate portfolio as the Bank avoided investor-driven residential condominium financing. In the commercial market, while office vacancies in major cities are generally on the rise, the Bank's portfolio is well diversified throughout the country. Canadian non-performing real estate loans, net of allowance for credit losses, were less than 3% of total real estate loans.

In the United States, the weakness experienced late last year in many market areas has further deteriorated, particularly in New York City where problem accounts represented about 50% of the Bank's net non-performing real estate loans. Net non-performing real estate loans, in the United States, account for about 6% of total real estate loans.

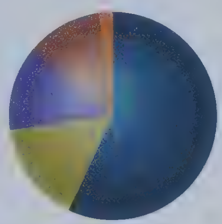
Leveraged Financing

The Bank's lending policy clearly defines characteristics under which a transaction is classified as a leveraged financing. These include loans where debt servicing depends on an unusually high proportion of future cash flow, asset sales or improved financial performance. In addition, the Bank considers a loan to be a leveraged financing where the debt-to-equity ratio is unusually high in relation to industry standards.

The Bank monitors its exposure to leveraged financing on a monthly basis. Limits are placed on the exposure in total, as well as on the underwriting and retention levels. The total portfolio consists entirely of senior debt and does not contain equity or subordinated debt.

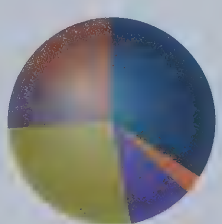
Chart 13
REAL ESTATE PORTFOLIO
As at October 31, 1991

CANADA
(51% of Total)



- British Columbia (16%)
- Alberta (13%)
- Ontario (57%)
- Quebec (12%)
- Other (2%)

UNITED STATES
(46% of Total)



- Western (27%)
- Texas (10%)
- Mid-West (34%)
- South East (3%)
- New York (17%)
- Other (9%)

The Bank's definition of leveraged financing is narrower than the highly leveraged transaction (HLT) classification used in the United States. The principal exclusion from the Bank's definition are loans of $591 million to the cable and cellular industries which by their nature have high levels of debt in their financial structures. Separate diversification limits have been established for loans to these industries and the Bank's portfolio is entirely on a performing basis.

The Bank's leveraged financing exposure by industry is detailed in Table 16. At October 31, 1991, the total was $1.4 billion, a reduction of $265 million or 16% from 1990. The portfolio was almost entirely based in the United States and the balances included outstanding operating lines of credit and risk protection lines. At the end of fiscal 1991, the portfolio, net of allowance for credit losses, represented 35% of the Bank's common shareholders' equity, down from 46% a year ago. The largest borrower represented only 6% of the total leveraged financing portfolio and 16% of the portfolio, net of provisions, was on a non-performing basis.

Chart 14
LEVERAGED FINANCING
As at October 31, 1991

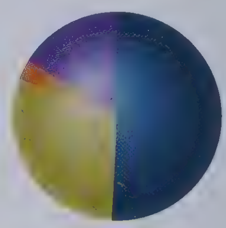


Table 16
LEVERAGED FINANCING
As at October 31
($ in millions)

	1990		**1991**	
	$	Mix (%)	**$**	**Mix (%)**
Manufacturing				
Transportation equipment	149	9.0	**112**	**8.0**
Beverage	101	6.1	**77**	**5.5**
Printing and publishing	81	4.9	**62**	**4.4**
Food	22	1.3	**19**	**1.3**
Electrical and electronic products	49	2.9	**43**	**3.1**
Plastic products	76	4.6	**99**	**7.1**
Other	300	18.0	**307**	**22.0**
Retail trade	384	23.1	**318**	**22.8**
Wholesale trade	146	8.8	**93**	**6.7**
Transportation	55	3.3	**43**	**3.1**
Potash mining	63	3.8	**–**	**–**
Other	236	14.2	**224**	**16.0**
Total	1,662	100.0	**1,397**	**100.0**
Leveraged Financing to Common Shareholders' Equity – net of allowance for credit losses	46.2%		**34.9%**	

EXPOSURE HAS BEEN REDUCED 16% FROM 1990.

LDC Portfolio

During fiscal 1991, the Bank continued its strategy to restructure and reduce lesser developed country (LDC) exposure. The Bank's exposure now consists of loans, securities and equity investments in 7 of the 45 countries which have been designated by the Office of the Superintendent of Financial Institutions for special reporting and provisioning. Exposure to 12 other designated countries has been eliminated over the past three years. The Bank's exposure by major country for the past five years is summarized in Table 17.

Table 17

LDC PORTFOLIO SUMMARY

As at October 31

($ in millions)	1987	1988	1989	1990	**1991**
Mexico	2,005	2,266	2,107	1,191	**1,116**
Brazil	1,575	1,376	1,209	995	**836**
Venezuela	526	465	485	453	**342**
Argentina	394	390	362	344	**258**
Other	1,239	750	398	270	**206**
Gross Exposure	5,739	5,247	4,561	3,253	**2,758**
Allowance for Credit Losses	(2,041)	(2,082)	(2,764)	(1,782)	**(1,501)**
Net Exposure	3,698	3,165	1,797	1,471	**1,257**
Write-Offs on Refinancings	–	–	–	759	**739**
Provisioning Ratio	35.6%	39.7%	60.6%	63.3%	**64.1%**
Net Exposure to Common Shareholders' Equity	122.7%	94.9%	58.0%	42.6%	**32.8%**

Note: For purposes of calculating the provisioning ratio, certain Argentine securities and the value of Canadian and United States risk collateral supporting the Mexican exposure are excluded. These totalled $128 million in 1990 and $151 million in 1991. In addition, write-offs on refinancings are added back to both gross exposure and allowance for credit losses as directed by the OSFI.

EXPOSURE HAS BEEN REDUCED BY 15%.

Gross LDC exposure was reduced by $495 million or 15% through sales and debt conversions. Improvement in the quality of the portfolio is reflected in the increasing portion of the portfolio represented by collateralized debt securities and equity investments. As shown in Table 18 on page 52, at year-end 1991 these amounted to $1.4 billion or 51% of total exposure. An additional $188 million (7%) was represented by other securities. Unrestructured medium and long-term debt decreased by $769 million or 40% relative to last year. This was principally the result of restructuring loans to the Venezuelan public sector which is discussed below.

LDC exposure, net of allowance for credit losses, was reduced by $214 million, or 15%, during the year. In view of the improving condition of the portfolio, the LDC allowance for credit losses was reduced by $60 million (which was offset by increases in other allowances for credit losses which is discussed on page 55). The transborder provisioning ratio increased from 63% to 64% at October 31, 1991, reflecting sales of LDC assets at prices exceeding net book values. By October 31, 1991, net LDC exposure had been reduced to 33% of common shareholders' equity compared with 43% a year ago.

Early in fiscal 1991, loans to the Venezuelan public sector were restructured. The Bank elected to convert, at par, U.S. $150 million of existing Venezuelan debt to bonds paying a market rate of interest. This option required the Bank to commit to U.S. $30 million in new loans. The remaining Venezuelan debt was exchanged for temporary interest-rate reduction bonds carrying a rolling 12 month interest guarantee for the first five years.

Chart 15

NET LDC EXPOSURE

As at October 31

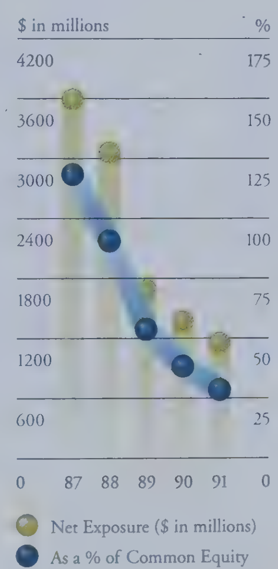


Table 18

LDC EXPOSURE

As at October 31
($ in millions)

		1990	1991
Collateralized Debt Securities and Equity Investments			
Mexico	• refinanced and discounted by 35% in 1990		
	• collateralized as to principal by 30 year Canada and United States zero coupon bonds and as to 18 months interest (net of principal collateral value)	1,160	**1,113**
Brazil	• equity investments	174	**155**
Venezuela	• securities collateralized as to 12 months interest (until 1995)	–	**152**
		1,334	**1,420**
Other Securities			
Venezuela (at face value)		–	**188**
Total Securities and Equity Investments		1,334	**1,608**
Unrestructured Medium and Long-Term Debt			
Brazil		821	**681**
Venezuela		453	**2**
Argentina		344	**258**
Other		301	**209**
Total Unrestructured Debt		1,919	**1,150**
Total Gross LDC Exposure		3,253	**2,758**

OVERDUE/UNACCRUED INTEREST

For the Year Ended October 31
($ in millions)

	1990	1991
Brazil	123	**144**
Argentina	79	**57**
Other	85	**78**
Total	287	**279**

Negotiations with Brazil resulted in the Bank receiving $42 million in interest payments during fiscal 1991. Negotiations are continuing with Brazil in respect of the portfolio of medium and long-term debt.

Negotiations are also being held with Poland and Ecuador to restructure their commercial bank debt. The Bank received $10 million in interest from Poland, Ecuador and Argentina collectively during fiscal 1991.

During the year a portion of Argentine loan principal and associated past-due interest was converted into securities of newly privatized entities. These securities are recorded on the Bank's books at their fair value of $17 million. In accordance with OSFI regulations, these securities are excluded from the Bank's provisionable exposure base.

Non-Performing Loans

Non-performing loans are those loans and loan substitution securities which have been placed on a non-accrual basis, generally due to non-payment of interest or principal for 90 days, or additionally because management believes the collectibility of principal or interest is in significant doubt. Details of the accounting treatment for non-accrual loans are provided in note 1 to the financial statements on page 71. Non-performing loans also include loans which have been renegotiated at a reduced interest rate and approximately $110 million in real estate assets acquired as a result of security realization relating to problem loans.

The Bank's credit policies require prompt recognition of problem accounts, the transfer of such accounts to specialized management within the Bank as early as possible, and the establishment of provisions for loan losses when an impairment in value is identified. A number of accounts classified as non-performing require no provisions as the ultimate collectibility of principal is not in significant doubt. Whenever feasible, special account management staff work closely with borrowers to assist in the improvement of their financial condition and thereby increase the potential for restoring the loans to performing status.

Table 19

NON-PERFORMING LOANS

As at October 31

($ in millions)	1987	1988	1989	1990*	**1991**
Non-Performing Loans					
LDC • gross	2,182	1,651	1,996	1,817	**1,400**
• allowance for credit losses	(2,041)	(2,082)	(2,764)	(1,782)	**(1,501)**
Net LDC	141	–	–	35	**–**
Other • gross • consumer	14	15	15	55	**114**
• mortgages	58	95	73	44	**59**
• other	1,842	1,622	1,183	1,346	**1,729**
• allowance for credit losses • specific	(651)	(571)	(446)	(497)	**(588)**
• general	–	–	(40)	(60)	**(50)**
Net Non-LDC	1,263	1,161	785	888	**1,264**
Total Non-Performing Loans	1,404	1,161	785	923	**1,264**

Note: For purposes of reporting net non-performing loans to the OSFI, banks are allowed to deduct the allowance for LDC loan losses only to the extent of non-performing LDC loans.

*Comparative data has been reclassified to conform with the 1991 presentation which includes residential mortgages under consumer.

The Bank's level of non-performing loans, net of allowance for credit losses, was $1,264 million at year-end 1991, compared to $923 million at the end of fiscal 1990. The year-over-year increase is the result of the economic decline in North America that began early in 1990. Table 20 provides an industry breakdown of the non-LDC portfolio as at October 31, 1991, reflecting that the increase in non-performing loans occurred mainly in the real estate, manufacturing, and mining and energy industries.

Table 20

NON-PERFORMING LOANS BY INDUSTRY

(Excluding LDC exposure)
As at October 31
($ in millions)

	1990		**1991**	
	$	% of total non-LDC loans	**$**	**% of total non-LDC loans**
Individuals	129	0.2	**161**	**0.3**
Financial Institutions	69	0.1	**47**	**0.1**
Corporate and Commercial				
Real estate	477	0.9	**716**	**1.2**
Construction	89	0.1	**72**	**0.1**
Manufacturing	129	0.2	**204**	**0.3**
Mining and energy	144	0.3	**206**	**0.3**
Service industries	36	0.1	**61**	**0.1**
Retail and wholesale trade	160	0.3	**215**	**0.4**
Agriculture	117	0.2	**99**	**0.2**
Transportation, communications and utilities	42	0.1	**98**	**0.2**
Other	53	0.1	**23**	**–**
Gross Non-Performing Loans	1,445	2.6	**1,902**	**3.2**
Allowance for credit losses	(557)	(1.0)	**(638)**	**(1.1)**
Non-Performing Loans, Net of Allowance for Credit Losses	888	1.6	**1,264**	**2.1**

As shown in Tables 19 and 20, non-performing loans are reported net of the allowance for credit losses. This allowance consists of specific and general provisions which the Bank considers will adequately absorb all losses inherent in its loan portfolio. Specific provisions reflect the estimated level of impairment for particular loans and general provisions cover probable credit losses which cannot be determined on an account by account basis. The amount of this allowance is often compared to the gross amount of non-performing loans to assess its adequacy. As shown in Table 21, the Bank's allowance covered 65% of total non-performing loans, and 34% for the non-LDC portion.

Table 21

NON-PERFORMING LOAN RATIOS

	1987	1988	1989	1990	**1991**
As at October 31					
Allowance for credit losses to gross non-performing loans					
• Total portfolio	65.7%	78.4%	99.5%	71.7%	**64.8%**
• Non-LDC portfolio	34.0%	33.0%	38.2%	38.5%	**33.5%**
Net non-performing loans to total loans	2.7%	2.2%	1.4%	1.7%	**2.1%**
Net non-performing loans to common shareholders' equity	46.6%	34.8%	25.3%	26.7%	**33.0%**
For the Year Ended October 31					
Write-offs to average loans	0.52%	0.58%	0.99%	2.06%	**0.80%**
Provision for credit losses to average loans	2.57%	0.74%	2.22%	0.31%	**0.58%**

Note: For purposes of reporting net non-performing loans to the OSFI, banks are allowed to deduct the allowance for LDC loan losses only to the extent of non-performing LDC loans (refer to Table 19).

Coverage ratios such as those in Table 21 are commonly used to assess relative asset quality between commercial banks. In general, the assumption is that higher ratios provide more protection. However, differences between countries in loan accounting and income tax regulations as well as in the timing of recognition of actual value impairment of the portfolio cause differing levels for these ratios. A comparison of provisions for credit losses and actual write-offs over time provides a more reliable assessment of the adequacy of a bank's provisions. As Table 21 shows, the Bank's provisions have more than adequately anticipated the required level of write-offs over the past five years.

Provision for Credit Losses

The Bank regularly reviews its portfolio of loans and other on- and off-balance sheet exposures to establish the estimated realizable principal value, taking into account the industry, business conditions, and payment record of specific borrowers. As a result of these reviews, specific provisions are established to offset any estimated impairment of principal. In addition, where no specific provisions are deemed necessary, the Bank may establish general provisions for the total portfolio in certain industries or regions where conditions indicate losses may occur.

Over time, these provisions may prove to be too high or too low as the financial condition of borrowers change and the estimated realizable principal value increases or decreases. As a result, adjustments are made on a regular basis to previously established provisions.

Table 22

PROVISION FOR CREDIT LOSSES

For the Year Ended October 31

($ in millions)	1987	1988	1989	1990	**1991**
Bank of Montreal, Specifics (Parent)					
Individuals	38	35	36	45	**95**
Business and Other	(31)	53	32	52	**216**
	7	88	68	97	**311**
Harris, Specifics	66	60	70	70	**90**
BAMI, Specifics	2	4	3	3	**6**
General Provisions					
LDC	1,299	238	1,000	(21)	**(60)**
Other	–	–	40	20	**(10)**
	1,299	238	1,040	(1)	**(70)**
Summary					
LDC	1,299	238	1,000	(21)	**(60)**
Other	75	152	181	190	**397**
Total	1,374	390	1,181	169	**337**

In 1991, the Bank established specific provisions totalling $407 million against its non-LDC portfolio. Of this amount, $337 million was charged against income, and the remaining $70 million represented a utilization of general provisions. The $70 million was made up of a year over year reduction in the Provision for Doubtful Credits of $10 million and a transfer of $60 million from LDC provisions.

The amount charged to income produced a ratio of provisions to average loans of 0.58% for the year, up from 0.31% a year ago reflecting the pace of bankruptcies and the weak North American economies. The Bank's ratio continues to rank as the best among the six largest Canadian banks.

Liquidity – Substantial Flexibility and Strength

The Bank, as a matter of policy, maintains a high level of liquidity. In general, liquidity is generated through growth in core deposits. As a result of a higher market share of deposits than loans in Canada, the Bank had more liquidity than required by policy.

Liquidity management is critical to the stability of the Bank. The purpose of liquidity management is to ensure there is sufficient cash flow to meet all the Bank's financial commitments and provide the flexibility to capitalize on opportunities for expansion. The Bank's liquidity makes it possible to meet deposit withdrawals on demand or at contractual maturity, to repay borrowings as they mature, and to have funds available for lending or investment as opportunities arise.

In order to meet these needs, it is the policy of the Bank to maintain a significant proportion of its assets in liquid form in both Canadian and U.S. dollars. These assets comprise: cash resources; deposits with major domestic and international banks; and securities, including Government of Canada Treasury Bills and Bonds. Liquid assets have little or no credit risk and consequently generally earn a lower rate of interest than loans.

In addition to maintaining liquid assets, the Bank's policies also ensure that its funding sources are widely diversified. In Canada, most of the Bank's funding is provided by core deposits. Wholesale funds in foreign currencies are spread among central banks, fiduciary funds, and other large banks as well as from individuals and corporations. Geographic diversification is also a key element in ensuring secure and continuous availability of funds.

Table 23
LIQUIDITY
As at October 31

($ in billions)	1987	1988	1989	1990	**1991**
Cash resources	2.6	2.0	2.0	1.7	**2.5**
Deposits with other banks	11.0	8.2	6.6	10.8	**11.1**
Securities	11.0	9.9	9.8	12.2	**17.9**
Total	24.6	20.1	18.4	24.7	**31.5**
Liquid Assets to Total Assets	29.2%	25.5%	23.3%	28.3%	**31.9%**

At October 31, 1991, liquid assets were 31.9% of total assets compared with 28.3% a year ago. This increase was due to the Bank's discretionary investment in money market assets. Excluding all money market assets and LDC securities, liquid assets were 17% of total assets, up slightly from 1990.

Deposits

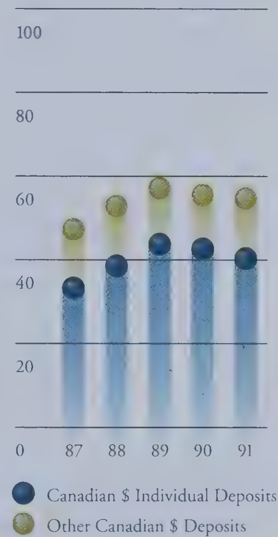
As mentioned above, the Bank's solid liquidity position is primarily the result of a well-developed core deposit base. Total deposits of $82.8 billion at October 31, 1991 were 13% higher than last year. Canadian dollar deposits have increased steadily throughout the past five years and are now about 57% of the total, compared to about 50% in 1987. Canadian dollar deposits, particularly those from individuals, which have shown the greatest growth, are of considerable importance to the Bank because of the stability they provide. The Bank has very little dependence on wholesale funding in Canadian dollars. The increase in

Canadian dollar deposits by banks and other currency deposits in the "Other" category reflect the liabilities assumed by the Bank in order to fund an increase in money market investments.

Table 24
DEPOSITS
As at October 31

($ in billions)	1987	1988	1989	1990	**1991**
Canadian Dollar Deposits					
By governments	1.2	0.6	0.3	0.7	**1.2**
By banks	1.3	1.3	1.2	1.5	**2.1**
By individuals	25.8	27.3	30.5	33.1	**35.5**
Other	7.6	7.6	7.4	7.2	**8.7**
Total	35.9	36.8	39.4	42.5	**47.5**
Other Currency Deposits					
By banks	15.5	10.7	9.3	12.3	**12.5**
By individuals	4.3	4.3	4.4	4.8	**4.8**
Other	16.4	14.6	12.8	13.7	**18.0**
Total	36.2	29.6	26.5	30.8	**35.3**
Total Deposits	72.1	66.4	65.9	73.3	**82.8**

Chart 16
DEPOSITS
Canadian Dollar Deposits
As a % of Total Deposits
As at October 31



The mix and term of deposits also affects the Bank's net interest spread. The Bank's deposit mix and cost is provided in the Yield, Cost and Mix table on page 40. The interest rate sensitivity table on page 39 shows the composition of deposits by term.

Government Levies

Government levies for income and other taxes significantly reduce the Bank's earnings from operations. These levies, which have increased substantially in 1991, are essentially uncontrollable costs of doing business.

Income Taxes

In 1991, the Bank's provision for income taxes was $384 million or 39.0% of income before taxes. This rate is lower than the statutory tax rate of 41.5% prevailing in Canada in 1991 largely due to lower income tax rates applicable to income earned from operations outside Canada, such as Harris, and the effect of tax-exempt revenues earned on some Canadian securities. The foreign currency translation loss, which relates to the Bank's investment in BAMI, was not deductible for income tax purposes. This had the effect of increasing the effective tax rate. As shown in Table 25 on page 58, excluding the foreign currency translation loss, the tax rate was 37.8%.

Table 25

INCOME TAXES

For the Year Ended October 31
($ in millions)

	1987	1988	1989	1990	**1991**
Income before taxes*	840	880	2	960	**985**
Add back foreign currency translation loss reported net of tax	27	53	90	111	**30**
Adjusted Income before Taxes*	867	933	92	1,071	**1,015**
Provision for Income Taxes*	313	374	36	435	**384**
Adjusted Effective Tax Rate	36.1%	40.1%	39.1%	40.6%	**37.8%**
Statutory Tax Rate	48.9%	46.0%	41.6%	41.7%	**41.5%**

*Not on a taxable equivalent basis.

Other Government Levies

In addition to income taxes, the Bank incurs other government levies from each level of government. In 1991, these levies were estimated at $216 million, up $28 million or nearly 15% from 1990.

In 1991, the Canadian government introduced a new levy, the goods and services tax (GST). The Bank generally does not charge the GST to the customer because most of the Bank's transactions are considered to be tax-exempt. However, the Bank still has to pay tax on most of the supplies and services it receives and usually cannot claim a refund. This year, the Bank incurred approximately $20 million in GST, offset by an estimated $10 million savings from the elimination of the federal sales tax.

In addition to direct taxes on income and capital, North American banks and trust companies are required to pay deposit insurance premiums and all Canadian companies are required to pay unemployment insurance premiums. The amount of deposit insurance premiums paid by the Bank for 1991 was $48 million, up from $38 million in 1990 mainly due to a $7 million, or 75%, increase in the United States' portion. Table 26 details the most significant other government levies paid by the Bank.

Furthermore, Canadian chartered banks, unlike trust companies and other financial institutions, are subject to regulatory reserve requirements. In Canadian dollars, the Bank maintained an average of $1.0 billion in non-interest bearing primary reserves, and an average of $1.1 billion in secondary reserves. Both of these reserves are required by the Bank of Canada. In addition, regulatory reserves in the United States averaged approximately U.S. $135 million. Maintenance of these balances represents a real cost to the Bank as the funds either earn a low rate of interest or do not earn any interest. Although some portion of these reserves are necessary for day-to-day transactions, the overall cost, in foregone interest revenue, exceeds $100 million annually. These reserves form part of the Bank's liquidity.

Table 26

OTHER GOVERNMENT LEVIES

For the Year Ended October 31
($ in millions)

	1990	**1991**
Provincial capital taxes	45	**42**
Property taxes	35	**40**
Business taxes	23	**22**
Goods and services tax – net*	–	**10**
Deposit insurance	38	**48**
Unemployment insurance	19	**23**
Other	28	**31**

NEARLY 11% INCREASE IN TAXES MAINLY DUE TO NEW GOODS AND SERVICES TAX.

*Net of federal sales tax elimination.

Quarterly Statistics

For the three months ended:	**Oct. 31 1991**	July 31 1991	Apr. 30 1991	Jan. 31 1991	Oct. 31 1990*	July 31 1990*	Apr. 30 1990*	Jan. 31 1990*
Balance Sheet Data ($ in billions)								
Total assets	**98.7**	94.7	96.8	91.4	87.4	82.8	81.3	80.1
Loans	**60.2**	59.1	58.7	57.6	55.1	52.6	53.0	54.2
Deposits	**82.8**	78.7	81.0	77.5	73.3	70.1	68.7	68.2
Total capital funds	**6.1**	6.1	5.7	5.5	5.4	5.1	5.1	5.0
Common equity	**3.8**	3.7	3.6	3.6	3.5	3.3	3.3	3.2
Average Assets	**97.3**	94.9	93.9	90.2	85.4	82.6	80.8	80.2
Income Statement Data ($ in millions)								
Net interest income (TEB)**	**723.2**	699.2	673.4	680.4	650.8	627.8	659.9	667.1
Other operating income	**322.5**	317.3	299.0	309.9	295.8	286.6	281.2	294.7
Foreign currency translation gain (loss)	–	(1.9)	(0.7)	(27.2)	(17.2)	(20.3)	(34.7)	(38.8)
Total Revenue (TEB)**	**1,045.7**	1,014.6	971.7	963.1	929.4	894.1	906.4	923.0
Provision for credit losses	**101.6**	90.7	77.5	67.5	40.3	28.4	51.0	49.0
Non-interest expense	**644.1**	663.9	653.7	643.0	623.2	633.3	603.4	593.6
Provision for income taxes (TEB)**	**122.4**	106.7	110.1	113.2	120.7	112.3	133.8	138.8
Minority interest	**1.7**	1.2	2.0	0.8	1.1	(0.1)	0.9	0.8
Net Income	**175.9**	152.1	128.4	138.6	144.1	120.2	117.3	140.8
Common Share Information ($)								
Earnings per share	**1.35**	1.17	1.01	1.10	1.16	0.95	0.94	1.15
Dividends per share	**0.53**	0.53	0.53	0.53	0.53	0.53	0.53	0.53
Market Price Per Common Share								
High	**38.375**	38.375	36.750	32.250	27.875	29.375	30.125	34.375
Low	**35.875**	33.875	32.250	26.500	24.500	24.750	25.250	29.125
Close	**37.375**	36.500	36.625	32.125	27.000	27.000	25.625	29.375
Book value per common share	**32.10**	31.46	30.85	30.53	30.01	29.31	28.93	28.69
Financial Measures (%)								
Profitability								
Return on average common equity	**16.9**	15.0	13.5	14.5	15.6	13.0	13.4	16.3
Productivity								
Expenses to revenues	**61.6**	65.4	67.3	66.8	67.1	70.8	66.6	64.3
Capital								
Risk-Adjusted Capital Ratios								
Tier 1	**6.25**	6.22	5.58	5.54	5.51	5.52	5.32	5.20
Total	**8.82**	8.94	8.26	8.13	8.29	8.14	7.93	7.83
Asset Quality								
Provision for credit losses to average loans	**0.68**	0.61	0.54	0.48	0.30	0.21	0.38	0.36

*Restated to conform with 1991 presentation.

**Reported on a taxable equivalent basis (TEB).

The Last 10 Years

($ in millions)	1991	1990*	1989*	1988*	1987*	1986*	1985*	1984*	1983*	1982*
Balance Sheet Data										
At October 31										
Assets										
Cash resources	**13,607**	12,502	8,581	10,170	13,540	14,514	12,736	13,276	8,317	7,539
Securities	**17,863**	12,238	9,761	9,946	11,049	10,525	10,525	8,835	8,444	5,420
Loans	**60,171**	55,106	54,303	51,986	52,595	54,471	51,966	47,929	41,546	44,082
Acceptances	**3,711**	3,508	2,778	3,584	3,287	4,633	4,228	3,612	3,065	3,050
Other assets	**3,373**	4,016	3,498	3,223	3,757	3,037	2,965	2,839	1,822	1,936
Total	**98,725**	87,370	78,921	78,909	84,228	87,180	82,420	76,491	63,194	62,027
Liabilities, Share capital and Retained earnings										
Deposits	**82,789**	73,321	65,923	66,370	72,084	74,876	71,388	66,671	55,320	53,875
Other liabilities	**9,816**	8,650	7,922	7,448	7,422	7,196	6,480	5,809	4,758	5,110
Subordinated debt	**1,570**	1,473	1,329	1,307	1,259	1,463	1,100	1,065	728	726
Share capital										
• Preferred	**718**	475	650	450	450	650	650	650	375	375
• Common	**2,416**	2,276	2,162	2,048	1,931	1,253	1,130	949	821	745
Retained earnings	**1,416**	1,175	935	1,286	1,082	1,742	1,672	1,347	1,192	1,196
Total	**98,725**	87,370	78,921	78,909	84,228	87,180	82,420	76,491	63,194	62,027
Average Balances										
Loans	**58,236**	54,014	53,110	52,538	53,396	54,769	50,022	43,200	42,982	44,827
Assets	**94,033**	82,452	78,878	79,312	84,584	86,761	79,464	66,715	63,672	62,841
Income Statement Data										
Net interest income (TEB)**	**2,776**	2,606	2,600	2,612	2,256	2,274	2,140	1,753	1,736	1,590
Other operating income	**1,249**	1,158	1,076	1,095	880	819	682	499	411	351
Foreign currency translation gain (loss)	**(30)**	(111)	(90)	(53)	(27)	(1)	2	5	–	–
Total Revenue (TEB)**	**3,995**	3,653	3,586	3,654	3,109	3,092	2,824	2,257	2,147	1,941
Provision for credit losses	**337**	169	1,181	390	75	605	330	365	550	550
Non-interest expense	**2,605**	2,453	2,330	2,297	2,055	1,935	1,788	1,384	1,249	1,163
Provision for income taxes (TEB)**	**452**	506	109	461	452	238	309	211	159	83
Minority interests	**6**	3	5	6	4	4	4	4	4	4
Net Income Before Special Provision	**595**	522	(39)	500	523	310	393	293	185	141
Special provision net of income taxes	**–**	–	–	–	765	–	–	–	–	–
Net Income (Loss)	**595**	522	(39)	500	(242)	310	393	293	185	141

*Restated to conform with 1991 presentation.
**Reported on a taxable equivalent basis (TEB).

	1991	1990*	1989*	1988*	1987*	1986*	1985*	1984*	1983*	1982*
Common Share Information										
Common shares outstanding (in thousands)	**119,385**	114,995	110,760	106,762	102,091	81,265	77,426	70,498	65,383	62,553
Earnings per share ($)	**4.63**	4.20	(0.79)	4.38	(3.19)	3.16	4.46	3.52	2.35	1.79
Dividends per common share ($)	**2.12**	2.12	2.12	2.00	2.00	1.96	1.96	1.96	1.96	1.96
Market Price Per Common Share ($)										
• High	**38.375**	34.375	35.250	29.750	39.250	35.250	31.500	28.375	33.625	27.375
• Low	**26.500**	24.500	26.625	24.625	25.500	27.250	23.250	21.375	23.500	16.750
• Close	**37.375**	27.000	34.000	28.500	26.625	34.125	30.750	23.625	27.125	24.000
Book value per common share ($)	**32.10**	30.01	27.96	31.23	29.51	36.85	36.19	32.56	30.78	31.03
Financial Measures (%)										
Return on Investment										
• Dividend yield (a)	**7.9**	6.2	7.4	7.5	5.9	6.4	8.3	7.2	8.2	7.9
• Capital gain (loss)(b)	**38.4**	(20.6)	19.3	7.0	(22.0)	11.0	30.2	(12.9)	13.0	(3.5)
Total	**46.3**	(14.4)	26.7	14.6	(16.1)	17.3	38.5	(5.7)	21.2	4.4
Profitability										
Return on average common equity	**15.0**	14.6	(2.5)	14.7	(9.3)	8.5	13.2	10.9	7.7	5.5
Growth in revenues	**9.4**	1.9	(1.8)	17.5	0.5	9.5	25.1	5.1	10.6	3.6
Growth in expenses	**6.2**	5.3	1.4	11.8	6.2	8.2	29.2	10.8	7.4	15.7
Differential	**3.2**	(3.5)	(3.3)	5.7	(5.7)	1.3	(4.1)	(5.7)	3.2	(12.1)
Productivity										
Non-interest expenses to revenues	**65.2**	67.2	65.0	62.9	66.1	62.6	63.3	61.3	58.2	59.9
Capital										
Risk-Adjusted Capital Ratios										
• Tier 1	**6.25**	5.51	5.29	5.16	n/a	n/a	n/a	n/a	n/a	n/a
• Tier 2	**2.57**	2.78	2.70	2.42	n/a	n/a	n/a	n/a	n/a	n/a
• Total	**8.82**	8.29	7.99	7.58	n/a	n/a	n/a	n/a	n/a	n/a
Asset Quality										
Provision for credit losses to average loans	**0.58**	0.31	2.22	0.74	0.14	1.10	0.66	0.84	1.28	1.23
Equity to assets	**4.61**	4.49	4.75	4.80	4.11	4.18	4.19	3.85	3.78	3.73
Other										
Number of employees (c)	**32,130**	33,580	33,666	34,115	34,482	32,988	33,281	33,598	29,125	29,866
Number of branches										
• Parent Bank, in Canada	**1,186**	1,183	1,177	1,176	1,175	1,179	1,179	1,184	1,194	1,238
• Harris	**42**	39	34	32	24	23	21	18	NM	NM
• Nesbitt	**33**	33	34	32	33	NM	NM	NM	NM	NM
• Other	**11**	20	19	18	21	18	20	20	24	21
• Total	**1,272**	1,275	1,264	1,258	1,253	1,220	1,220	1,222	1,218	1,259

*Restated to conform with 1991 presentation.

(a) Dividends per common share divided by prior year closing common share price.

(b) Change in common share price during the year as a percentage of prior year closing common share price.

(c) 1991 statistic is net of 508 Banco de Montreal S.A. employees. This subsidiary is now recorded as an investment.

NM – Not meaningful because was not owned by Bank of Montreal at that time.

Economic Outlook

(December 6, 1991)

Developments in 1991

- Following the large 5.7% gain in Canada's real gross domestic product during the second quarter, the pace of activity weakened considerably. In the third quarter, growth was only 0.9%. And, employment growth in the first two months of the fourth quarter was negative. The following factors suggest that, at best, near term economic growth will be moderate:
  ~ expected sluggish growth in the United States;
  ~ relatively high debt and real interest rates;
  ~ the strong Canadian dollar which will depress export growth;
  ~ less overstocking of inventories due to better ability to match the timing of production with demand.
- Both wage and price inflation now appear to be on a clear downward trend as a result of the weak economy and public sector wage limits.
- The Bank of Canada began easing monetary conditions by lowering interest rates during the summer of 1990.
- The Federal Reserve in the United States eased at a slower pace than the Bank of Canada. Accordingly, the spread between Canadian and United States' short-term rates narrowed by 3 percentage points. On an inflation-adjusted basis, however, the spread remains sizeable.
- The Canadian dollar has strengthened to recent levels around U.S. $0.88.
- Canada is still receiving large capital inflows in consequence of the perception that Bank of Canada policy is firmly committed to a strong Canadian dollar and more committed to inflation reduction than is United States policy.

Expectations for 1992

- Subdued Recovery; Lower Inflation; Further easing in Monetary Conditions
  ~ Gross domestic product is expected to grow 2 to 3% through 1992.
  ~ Consumer price inflation is expected to be well below 3% by the end of 1992.
  ~ The prime lending rate is expected to fall to 7.5% by the middle of 1992.
  ~ The Canadian dollar is expected to decline to U.S. $0.84 ($1 U.S. = $1.19 Cdn.) by mid-1992.
- Continued difficulties in the United States' financial services industry.

Implications for the Banking Industry

- Loan growth in the personal and commercial markets is likely to continue to be weak, apart from residential mortgages. Residential mortgage growth is, however, expected to be modest in relation to the near 20% growth rate experienced in recent years. This will increase competition for business.
- Competitive pricing pressures will likely continue to narrow interest spreads, partially offset by further declines in interest rates.
- Revenues from fees will likely continue to grow to the extent that greater economic activity in 1992 increases transaction volumes.
- Productivity should improve as revenue growth is expected to exceed the effect of the forecast level of inflation on expenses. However, government levies on banks are expected to grow well beyond this 3% level.
- The levels of loan losses and non-performing loans are unlikely to show much improvement in 1992 as the recovery may not be strong enough to save many borrowers whose financial condition has been severely weakened by the recession.
- In the current environment, Canadian banks have good prospects for new and expanded corporate loan business in the United States.

Annual Financial Statements

Annual Financial Statements

Bank of Montreal

CONSOLIDATED STATEMENT OF ASSETS AND LIABILITIES

As at October 31

($ in thousands)	1991	1990
Assets		
Cash Resources		
Cash and deposits with Bank of Canada	**$ 1,747,703**	$ 1,205,465
Deposits with other banks	**11,088,712**	10,813,825
Cheques and other items in transit, net	**770,739**	482,791
	13,607,154	12,502,081
Securities (net of allowance for credit losses) (notes 3 & 5)		
Issued or guaranteed by:		
Government of Canada	**9,288,072**	4,119,477
Provinces and municipal or school corporations	**1,083,896**	761,241
Other securities	**7,490,490**	7,357,333
	17,862,458	12,238,051
Loans (net of allowance for credit losses) (notes 4 & 5)		
Day, call and short loans to investment dealers and brokers, secured	**393,386**	464,286
Banks	**1,034,478**	1,203,908
Mortgages	**18,047,465**	15,504,616
Other loans	**40,696,033**	37,932,968
	60,171,362	55,105,778
Other		
Customers' liability under acceptances	**3,711,489**	3,507,665
Land, buildings and equipment (note 6)	**1,299,963**	1,329,807
Other assets (note 7)	**2,072,078**	2,686,562
	7,083,530	7,524,034
Total Assets	**$98,724,504**	$87,369,944

	1991	1990
Liabilities, Share Capital and Retained Earnings		
Deposits (note 9)		
Payable on demand	**$ 7,698,070**	$ 6,967,449
Payable after notice	**26,692,345**	25,998,221
Payable on a fixed date	**48,398,282**	40,355,797
	82,788,697	73,321,467
Other		
Acceptances	**3,711,489**	3,507,665
Liabilities of subsidiaries, other than deposits (note 10)	**737,165**	688,914
Other liabilities (note 11)	**5,325,465**	4,412,259
Minority interests	**41,785**	41,205
	9,815,904	8,650,043
Subordinated Debt (note 12)		
Bank debentures	**1,401,404**	1,297,529
Other subordinated debt	**168,390**	175,005
	1,569,794	1,472,534
Share Capital and Retained Earnings		
Shareholders' equity		
Share capital (note 13)		
Preferred shares	**717,591**	475,000
Common shares	**2,416,303**	2,275,789
Retained earnings	**1,416,215**	1,175,111
	4,550,109	3,925,900
Total Liabilities, Share Capital and Retained Earnings	**$98,724,504**	$87,369,944

M.W. Barrett

Matthew W. Barrett
Chairman and
Chief Executive Officer

F.A. Comper

F. Anthony Comper
President and
Chief Operating Officer

Bank of Montreal

CONSOLIDATED STATEMENT OF INCOME

For the Year Ended October 31

($ in thousands except per share amounts)	1991	1990*
Interest, Dividend and Fee Income		
Loans	**$6,372,107**	$7,008,684
Lease financing	**19,762**	97,410
Securities	**1,406,655**	1,439,976
Deposits with banks	**942,923**	988,077
	8,741,447	9,534,147
Interest Expense		
Deposits	**5,724,892**	6,697,538
Subordinated debt	**143,028**	130,772
Liabilities other than deposits	**165,585**	171,240
	6,033,505	6,999,550
Net Interest Income	**2,707,942**	2,534,597
Provision for credit losses	**337,292**	168,744
Net Interest Income After Provision for Credit Losses	**2,370,650**	2,365,853
Other operating income	**1,248,682**	1,158,295
Foreign currency translation loss arising from foreign operation in highly inflationary economy	**(29,816)**	(111,065)
Net Interest and Other Income	**3,589,516**	3,413,083
Non-Interest Expense		
Salaries	**1,275,167**	1,234,587
Pension and other staff benefits	**166,658**	156,969
Premises and equipment	**536,611**	489,441
Other expenses	**626,211**	572,538
	2,604,647	2,453,535
Income Before Provision for Income Taxes	**984,869**	959,548
Provision for income taxes (note 14)	**384,125**	434,525
Income Before Minority Interests	**600,744**	525,023
Minority interests	**5,716**	2,658
Net Income	**$ 595,028**	$ 522,365
Net income per common share (note 15)	**$ 4.63**	$ 4.20

*Comparative data has been reclassified to conform with the 1991 presentation. In 1991 certain loan fees, which were included in other operating income in 1990, are included in interest income.

Bank of Montreal

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the Year Ended October 31

($ in thousands)	1991	1990
Preferred Shares (note 13)		
Balance at beginning of year	**$ 475,000**	$ 650,000
Proceeds of the sale of the Non-cumulative Class B Preferred Shares Series 1	**250,000**	–
Class A Preferred Shares Series 3 repurchased for cancellation	**(7,409)**	–
Redemption of the Class A Preferred Shares Series 2	**–**	(175,000)
Balance at end of year	**717,591**	475,000
Common Shares (note 13)		
Balance at beginning of year	**2,275,789**	2,162,288
Shareholder Dividend Reinvestment and Share Purchase Plan	**140,514**	113,501
Balance at end of year	**2,416,303**	2,275,789
Retained Earnings		
Balance at beginning of year	**1,175,111**	934,726
Net income	**595,028**	522,365
Dividends • Common shares	**(250,070)**	(240,406)
• Preferred shares	**(51,346)**	(48,125)
Unrealized gain (loss) on translation of net investment in foreign operations, net of hedging activities and applicable income tax	**(48,702)**	10,069
Premium on redemption of the Class A Preferred Shares Series 2	**–**	(3,500)
Loss on Class A Preferred Shares Series 3 repurchased for cancellation	**(111)**	–
Share issue expense, net of applicable income tax	**(3,116)**	(18)
Tax on preferred share dividends	**(579)**	–
Balance at end of year	**1,416,215**	1,175,111
Total Shareholders' Equity	**$4,550,109**	$3,925,900

Bank of Montreal

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

For the Year Ended October 31

($ in thousands)	1991	1990
Funds Provided From:		
Operations		
Net income	$ 595,028	$ 522,365
Other changes to retained earnings	(52,508)	6,551
	542,520	528,916
Financing		
Deposits	9,467,230	7,398,234
Other liabilities	962,037	(590)
Subordinated debt	97,260	143,166
Preferred shares	242,591	(175,000)
Common shares	140,514	113,501
Dividends paid	(301,416)	(288,531)
	10,608,216	7,190,780
Net Funds Provided	11,150,736	7,719,696
Funds Invested In:		
Securities	5,624,407	2,477,158
Loans	5,065,584	803,053
Land, buildings and equipment	(29,844)	33,087
Other assets	(614,484)	485,246
Net Funds Invested	10,045,663	3,798,544
Increase in Cash Resources	1,105,073	3,921,152
Cash Resources, Beginning of Year	12,502,081	8,580,929
Cash Resources, End of Year	$13,607,154	$12,502,081

Notes to Consolidated Financial Statements

1 Significant Accounting Policies

The accounting policies and financial statement formats of Canadian banks are prescribed by the Bank Act and the regulations of the Superintendent of Financial Institutions. The accounting policies followed by Bank of Montreal conform in all material respects with accounting principles generally accepted in Canada, except for certain aspects of the translation of foreign currencies.

Basis of Consolidation

The consolidated financial statements include the Bank and all of its subsidiaries, defined as corporations in which the Bank owns more than 50% of the voting shares and controls the subsidiary's operations. The purchase method is used to account for all acquisitions. The difference between the cost of the investment and the fair value of the net assets acquired is deferred and amortized over a period not exceeding 25 years. The unamortized balance is recorded in other assets as goodwill and other valuation intangibles.

Investments in associated corporations, being those in which the Bank owns 20% to 50% of the voting shares, are accounted for by the equity method, whereby the income of such corporations is recognized based on the Bank's proportionate share of the earnings.

Translation of Foreign Currencies

(a) Other than for Operations in Highly Inflationary Economies

Assets and liabilities denominated in foreign currencies are translated into Canadian dollars at rates prevailing on the balance sheet date. Revenues and expenses are translated at the average exchange rates prevailing during the year.

Realized and unrealized gains and losses on foreign currency assets and liabilities, other than those relating to net investments in foreign operations, are recorded in other operating income.

Unrealized foreign currency translation gains and losses on investments in foreign branches, subsidiaries and associated corporations are recorded in retained earnings, net of the after tax effect of any offsetting gains and losses on instruments designated as hedges. Such gains and losses are recorded in income only when realized.

(b) Operations in Highly Inflationary Economies (see also note 2)

For foreign operations in highly inflationary economies monetary assets and liabilities are translated into Canadian dollars at rates prevailing on the balance sheet date. Non-monetary assets and liabilities are translated into Canadian dollars at rates in effect at the respective transaction dates. Revenues and expenses are translated at the average exchange rates prevailing during the year.

Realized and unrealized gains and losses on translation are separately recorded in the Consolidated Statement of Income.

Securities

Securities comprise investment, trading, debt of designated countries and loan substitute securities.

Investment securities are securities purchased where the Bank's original intention is to hold the securities to maturity or until market conditions render alternative investments more attractive. Equity securities are carried at cost and debt securities at amortized cost. Gains and losses on disposal of these securities are recorded in income from securities when realized. Any permanent impairment in the value of investment securities is recorded as a charge to income from securities in the year in which it occurs.

Trading securities are those securities purchased for resale over a short period of time. Such securities are carried at market value. Adjustments to market value and gains and losses on sale of trading securities are recorded in income from securities in the period in which they occur. Obligations related to securities sold but not yet purchased are recorded in other liabilities.

Debt of designated countries represents those securities received as the result of debt restructurings with countries identified by the Superintendent of Financial Institutions as having difficulty in servicing their external debt to commercial banks. Such securities are accorded the accounting treatment applicable to loans.

Loan substitute securities are customer financings structured as after-tax investments to provide the borrower with an interest rate advantage over what would otherwise be applicable on a conventional loan. Such securities are accorded the accounting treatment applicable to loans.

Loans

Loans are stated net of any unearned income, unamortized discounts and allowance for credit losses.

Fees received in connection with loan origination activities, including loan restructurings and renegotiations, are deferred and amortized to interest income over the expected term of the loan. Loan commitment fees are deferred and amortized to other income over the term of the commitment. Loan syndication fees are recorded in other income on completion of the syndication arrangement. Deferred loan fees are recorded in other liabilities.

Interest income is recorded on an accrual basis except on loans classified as non-accrual.

The accounting treatment for non-accrual loans is as follows:

Personal Plan Loans and Credit Card Loans	Sovereign Risk Loans	All Other Personal, Corporate and Institutional Loans
Accounting for interest on non-accrual loans		
Classification as non-accrual		
Personal plan loans are classified as non-accrual when payments of interest or principal are contractually past due 90 days. Credit card loans are classified as non-accrual and written off when payments of interest or principal are contractually past due 180 days.	Loans are classified as non-accrual when: 1. in the opinion of management there is reasonable doubt as to the ultimate collectibility of principal or interest, or 2. payment of interest or principal is contractually past due 90 days unless in the opinion of management there is no significant doubt as to the ultimate collectibility of interest and principal, or 3. payment of interest or principal is contractually past due 180 days, or 4. in the opinion of management it is considered prudent or desirable to cease accruing interest, irrespective of the status of interest or principal payments.	Loans are classified as non-accrual when: 1. in the opinion of management there is reasonable doubt as to the ultimate collectibility of principal or interest, or 2. payment of interest or principal is contractually past due 90 days unless the loan is both well secured and in the process of collection, or 3. payment of interest or principal is contractually past due 180 days, or 4. in the opinion of management it is considered prudent or desirable to cease accruing interest, irrespective of the status of interest or principal payments.

Interest

When a loan is classified as non-accrual, all accrued and unpaid interest is reversed and charged against interest income in the period in which the loan is classified as non-accrual. Interest is not capitalized if a loan is non-accrual nor is it capitalized to prevent placing a loan on a non-accrual basis.

Application of subsequent payments

Personal Plan Loans and Credit Card Loans	Sovereign Risk Loans	All Other Personal, Corporate and Institutional Loans
Subsequent payments are applied first to interest, then to principal, unless directed otherwise by the borrower.	Subsequent payments are applied first to interest, then to principal, unless directed otherwise by the borrower.	Subsequent payments are recorded in interest income after any prior write-off has been recovered and if management has determined that a specific provision is not required, otherwise they are recorded as a reduction of principal.

The accounting treatment for non-accrual loans is as follows (continued):

Personal Plan Loans and Credit Card Loans	Sovereign Risk Loans	All Other Personal, Corporate and Institutional Loans
Accounting for principal amounts of non-accrual loans		
Establishing provision for credit losses on loans and writing off loans		
Personal plan loans have full specific provisions established and they are written off when payments of interest or principal are contractually past due one year. Credit card loans have full specific provisions established and they are written off at the same time as they are classified as non-accrual.	A specific provision is established to reduce the book value of the loan to its estimated realizable value if there is significant doubt as to the ultimate collectibility of principal on a particular private sector loan. A general country risk provision is established on sovereign, transborder or country risk claims based on management's assessment of the economic conditions in those countries.	A specific provision is established to reduce the book value of the loan to its estimated realizable value if there is significant doubt as to the ultimate collectibility of principal on a particular private sector loan. A provision for doubtful credits is established when deemed necessary by management to absorb losses inherent in the portfolio of credit extended to particular industries or geographic regions.
	Loans are written off after all reasonable restructuring/collection activities have taken place and the possibility of further recovery is considered to be remote.	

Allowance for Credit Losses

The Bank maintains an allowance for credit losses account which consists of:

- General country risk provision which is deducted from loans and debt of designated countries received as a result of debt restructurings.
- Other provisions including:
  - Specific provisions,
  - Provisions for doubtful credits, other than the general country risk provision.

  Other provisions are deducted from the related asset category, except for provisions relating to acceptances and off-balance sheet items which are recorded in other liabilities.

The provision for credit losses recorded in the Consolidated Statement of Income comprises changes in the general country risk and other provisions, write-offs and recoveries of loans and other credit assets for the year.

Acceptances

The Bank's liability under acceptances is reported as a liability in the Consolidated Statement of Assets and Liabilities. The Bank has an offsetting claim against its customers when the instrument matures which is recorded as an asset of the same amount.

Land, Buildings and Equipment

Land is stated at cost and buildings and equipment are stated at cost less an allowance for depreciation and amortization. The Bank's depreciation policy is the straight line method over the estimated useful life of the asset. The maximum life limits for the various classes are as follows:

Buildings	to 40 years
Leasehold improvements	to 15 years
Equipment	to 10 years

Income Taxes

The Bank's total income taxes includes the provision for income taxes in the Consolidated Statement of Income and income taxes in respect of items recorded directly in retained earnings. The Bank follows the tax allocation method of accounting whereby income taxes are based on transactions recorded in the financial statements regardless of when they are recognized for tax purposes. When there are timing differences in the recognition of transactions for financial statement and income tax purposes, deferred income taxes are recorded. Accumulated deferred income taxes are included in other assets or other liabilities as appropriate.

Interest Rate and Foreign Exchange Contracts

The Bank enters into interest rate and foreign exchange contracts such as futures, options and swaps for trading purposes or to hedge the Bank's interest rate or foreign currency exposures. Such contracts are marked to market and gains and losses are immediately recorded in income unless the contract is entered into for hedging purposes. When used for hedging purposes, gains and losses are recognized in income on the same basis as the hedged item.

Pension and Other Retirement Benefits

The Bank's principal pension plan in Canada is The Pension Fund Society of the Bank of Montreal. A number of plans provide similar benefits to other employees in Canada, the United States and in other parts of the world. The plans provide pensions to retired employees based on years of service and average earnings at retirement. These plans are generally non-contributory, with the Bank responsible for contributions to adequately fund the plans.

A valuation is performed each year to determine the actuarial present value of the accrued pension benefits. Pension plan assets are valued at market values.

Pension expense is recorded in the Consolidated Statement of Income in pension and other staff benefits and includes (1) the cost of pension benefits earned by employees for current year services, (2) the net of assumed investment earnings on plan assets and accretion of pension obligations and (3) the amortization on a straight line basis over the expected average remaining service life of employees of (i) experience gains and losses, (ii) amounts arising as a result of changes in assumptions and (iii) amounts arising from plan amendments.

The Bank also provides certain health care and life insurance benefits for employees on retirement. The cost of these benefits is recorded in pension and other staff benefits as incurred.

2 Change in Accounting for Subsidiary

Effective August 1, 1991, the Bank changed its method of accounting for its Brazilian subsidiary, Banco de Montreal S.A. (BAMI), from the consolidation method to the cost method. This change was necessary because of the effect of the increasingly restrictive regulatory environment in Brazil on the Bank's ownership of BAMI.

The effect of this change has been to reduce total assets by approximately $346 million and to increase net income by $4.4 million. The Bank's investment in BAMI is now carried in corporate equity investment securities at $27.4 million, which is net of an allocation of the general country risk provision of $48.8 million.

The financial statements for prior periods have not been restated.

3 SECURITIES

($ in millions)

	Term to maturity					1991		1990	
	Within 1 year	1 to 3 years	3 to 5 years	5 to 10 years	Over 10 years	Total	Estimated market value	Total	Estimated market value
Investment Securities									
Issued or guaranteed by:									
Canada	$ 6,584	$ 172	$ 253	$ 76	$ 62	$ 7,147	$ 7,170	$ 3,209	$ 3,209
Provinces	18	12	13	312	3	358	384	542	540
Municipal or school corporations	1	–	–	3	1	5	5	5	4
U.S. federal government	557	216	489	107	–	1,369	1,393	1,300	1,311
U.S. states, municipalities and agencies	683	615	177	354	20	1,849	1,909	2,041	2,080
All other governments	2	–	–	–	–	2	2	2	2
Corporate debt	237	18	17	13	26	311	313	1,183	1,179
Corporate equity (a)	–	–	–	–	389	389	392	78	86
Total investment securities	8,082	1,033	949	865	501	11,430	11,568	8,360	8,411
Trading Securities (b)	3,671	736	207	269	454	5,337	5,337	2,328	2,328
Debt of Designated Countries (c)	–	–	–	–	803	803	1,174	1,257	802(f)
Loan Substitute Securities									
Term preferred shares	–	–	–	1	278	279	276	264	261
Floating rate small business development bonds and small business bonds	13	–	–	–	–	13	13	29	29
Total loan substitute securities (d)	13	–	–	1	278	292	289	293	290
Total Securities (e)	$11,766	$1,769	$1,156	$1,135	$2,036	$17,862	$18,368	$12,238	$11,831(f)

(a) Equity securities which have no stated term are classified as "Over 10 years" term to maturity.

(b) Trading securities are primarily short term Canadian and U.S. government treasury and similar debt instruments.

(c) Debt of designated countries represents securities received as a result of debt restructuring in certain designated countries. The balance includes $1,200 million (1990 – $1,240 million) of Mexican government bonds, collateralized by U.S. Treasury securities, and $340 million (1990 – nil) of Venezuelan government bonds, net of $737 million (1990 – nil) general country risk provision (note 5) allocated to these securities.

In 1991 the applicable general country risk provision, which was allocated to loans in 1990, is allocated to debt of designated countries.

(d) Total loan substitute securities are net of $8 million (1990 – $5 million) allowance for credit losses (note 5).

(e) Certain securities of Harris Bankcorp, Inc. having a book value of $2,110 million (1990 – $1,815 million) were pledged, where permitted or required by law, to secure liabilities and public and trust deposits. Securities of The Nesbitt Thomson Corporation Limited, having a book value of $480 million (1990 – $262 million) were pledged as collateral against certain liabilities.

(f) The 1990 estimated market value of debt of designated countries has been restated to conform with the 1991 presentation.

In 1990 the estimated market value of debt of designated countries was reported as equal to the carrying value since any potential losses on these securities were covered by the allowance for credit losses included in loans. In 1991 the allowance has been allocated between loans and securities.

4 NON-PERFORMING LOANS*

($ in millions)

	1991				1990			
	Domestic (a)	**International** (b)		**Total**	Domestic	International		Total
Balances		**Designated countries**	**Other countries**			Designated countries	Other countries	
Non-accrual consumer loans	$ 114	$ –	$ –	$ 114	$ 55	$ –	$ –	$ 55
Other non-accrual loans	724	1,400	1,064	3,188	603	1,817	787	3,207
Total non-accrual loans	838	1,400	1,064	3,302	658	1,817	787	3,262
Allowance for credit losses	(308)	(1,400)	(330)	(2,038)	(318)	(1,782)	(239)	(2,339)
Total net non-accrual loans	530	–	734	1,264	340	35	548	923
Renegotiated reduced rate loans	–	–	–	–	–	–	–	–
Total net non-performing loans	$ 530	$ –	$ 734	$1,264	$ 340	$ 35	$ 548	$ 923
Other Past Due Loans	$ –	$ –	$ 11	$ 11	$ –	$ 4	$ 6	$ 10
Interest Income on Total Non-Accrual Loans (c)	$ 8	$ 77	$ 22	$ 107	$ 18	$ 64	$ 22	$ 104
Average Net Non-Performing Loans	$ 484	$ 9	$ 595	$1,088	$ 378	$ 13	$ 402	$ 793

*Non-performing loans includes non-performing debt of designated countries as disclosed in note 3. Accordingly, the allowance for credit losses deducted from non-accrual loans of designated countries includes the portion of the general country risk provision allocated to securities – debt of designated countries (note 3).

(a) Domestic and International non-performing loans are represented on an ultimate risk basis, that is Canadian or foreign, respectively.

(b) Designated countries are a basket of 45 (1990 – 43) countries identified by the Superintendent of Financial Institutions as having difficulties in servicing all or part of their external debt to commercial banks.

(c) Interest income on total non-accrual loans is reported net of previously accrued interest which has been reversed in the current reporting year. Gross interest income received was $140 million (1990 – $133 million).

5 Allowance for Credit Losses

($ in thousands)

The allowance for credit losses is included in the Consolidated Statement of Assets and Liabilities as follows:	1991 General country risk provision	1991 Other provisions	1991 Total	1990 Total
Securities	$ 785,832	$ 8,122	$ 793,954	$ 4,782
Loans	715,333	630,242	1,345,575	2,334,129
Other liabilities (for acceptances and off-balance sheet items)	–	9,712	9,712	321
Balance at end of year	$1,501,165	$ 648,076	$2,149,241	$2,339,232

Changes in the allowance for credit losses are itemized as follows:	General country risk provision	Other provisions	Total	Total
Balance at beginning of year	$1,780,905	$ 558,327	$2,339,232	$3,249,282
Provision for credit losses	(60,440)	397,732	337,292	168,744
Recoveries	284	27,355	27,639	31,013
Write-offs	(152,673)	(315,158)	(467,831)	(1,105,913)
Other, including foreign exchange rate changes	(66,911)	(20,180)	(87,091)	(3,894)
Balance at end of year	$1,501,165	$ 648,076	$2,149,241	$2,339,232

6 Land, Buildings and Equipment

($ in thousands)

	1991 Cost	1991 Accumulated depreciation and amortization	1991 Net book value	1990 Net book value
Land	$ 214,827	$ –	$ 214,827	$ 199,584
Buildings	866,226	258,019	608,207	627,022
Equipment	781,681	411,348	370,333	388,552
Leasehold improvements	214,262	107,666	106,596	114,649
Total	$2,076,996	$ 777,033	$1,299,963	$1,329,807
Depreciation of buildings and equipment and amortization of leasehold improvements for the year			$ 162,850	$ 145,317

7 Other Assets

($ in thousands)	1991	1990
Accrued interest receivable	$ 549,551	$ 609,162
Due from clients, dealers and other financial institutions	320,957	520,374
Deferred income taxes recoverable	284,876	379,544
Goodwill and other valuation intangibles	265,461	311,022
Other items	651,233	866,460
Total	$2,072,078	$2,686,562
The components of goodwill and other valuation intangibles (and the remaining amortization period) for each major subsidiary are as follows:		
The Nesbitt Thomson Corporation Limited and subsidiaries (10 years)	$ 125,116	$ 137,000
Harris Bankcorp, Inc. and subsidiaries (17 years)	31,887	27,228
Banco de Montreal S.A.	–	17,692
Other valuation intangibles in respect of Harris Bankcorp, Inc. (from 1 to 11 years)	108,458	129,102
Total	$ 265,461	$ 311,022
Amortization of goodwill and other valuation intangibles for the year	$ 35,585	$ 25,959

8 Geographic Distribution of Assets by Location of Ultimate Risk

As at September 30

($ in millions) (a)	1991	1990
Countries Other than Designated Countries (b)		
Canada and United States		
Canada	**$61,814**	$53,134
United States	**25,111**	23,572
Total	**86,925**	76,706
Europe		
France	**1,439**	1,180
Germany	**692**	441
Italy	**462**	351
Netherlands	**373**	516
United Kingdom	**1,420**	1,225
Other	**1,911**	1,092
Total	**6,297**	4,805
Latin America and Caribbean	**151**	102
Asia Pacific		
Australia	**503**	358
Japan	**2,444**	1,948
Other	**586**	536
Total	**3,533**	2,842
Africa and Middle East	**20**	29
Total assets in countries other than designated countries	**96,926**	84,484
Designated Countries (a)		
Latin America and Caribbean		
Argentina	**275**	344
Brazil	**836**	1,384
Mexico	**1,116**	1,191
Venezuela	**342**	453
Other	**107**	148
Europe	**99**	122
Africa and Middle East	**–**	–
Total assets in designated countries	**2,775**	3,642
General country risk provision	**(1,501)**	(1,782)
Assets in designated countries net of general country risk provision	**1,274**	1,860
Total assets (a)	**$98,200**	$86,344
Assets in designated countries net of general country risk provision	**$ 1,274**	$ 1,860
Less: local assets funded by local liabilities	**–**	(389)
Net exposure to designated countries	**$ 1,274**	$ 1,471

(a) The amounts for assets in designated countries and the related deduction for country risk provision are as at October 31.

(b) All of the countries noted separately above represent an ultimate risk of ½ of 1% or more of the Bank's aggregate outstanding securities, deposits with other banks, customers' liability under acceptances and loans excluding mortgages.

Net Interest Income and Other Income Segmented on a Geographic Location Basis

	Canada		Elsewhere		Total	
($ in millions)	**1991**	1990	**1991**	1990	**1991**	1990
Interest income	**$5,923**	$5,993	**$2,818**	$3,542	**$8,741**	$9,535
Interest expense	**3,894**	4,217	**2,139**	2,783	**6,033**	7,000
Net interest income	**2,029**	1,776	**679**	759	**2,708**	2,535
Other income	**860**	745	**389**	413	**1,249**	1,158

The only foreign country from which more than 10% of the Bank's consolidated interest income was derived was the United States, where interest was Cdn. $2,012 million (1990 – Cdn. $1,973 million).

9 DEPOSITS

($ in thousands)	**1991**	1990
Deposits by Canada	**$ 926,410**	$ 469,153
Deposits by provinces	**269,169**	294,064
Deposits by banks	**14,630,109**	13,805,646
Deposits by individuals	**40,311,285**	37,841,162
Deposits by corporate and other institutions	**26,651,724**	20,911,442
Total	**$82,788,697**	$73,321,467

10 LIABILITIES OF SUBSIDIARIES, OTHER THAN DEPOSITS

($ in thousands)	Interest rate %	Maturity date	**1991**	1990
Bank of Montreal Realty Inc.				
Long term notes	9.50	May, 1996	**$100,000**	$100,000
Long term notes	10.75	November, 1992	**75,000**	75,000
Mortgages	7.75 – 10.25	to 1998	**5,594**	7,963
Bank of Montreal Leasing Corporation				
Series I notes, secured	9.05	July 1993	**5,000**	13,125
Short term notes, unsecured	7.45 – 11.20	to 1992	**79,961**	94,595
Harris Bankcorp, Inc.				
U.S. $100,000 subordinated notes	9.375	June, 2001	**112,260**	116,670
Other U.S. $ long term notes	varying rates	to 1995	**574**	421
The Nesbitt Thomson Corporation Limited				
Short term indebtedness	varying rates	to 1992	**358,776**	281,140
Total			**$737,165**	$688,914

The aggregate sinking fund requirements and maturities as at October 31, 1991 are as follows:

($ in thousands)	
1992	$443,466
1993	80,000
1994	–
1995	–
1996	100,000
1997 and thereafter	113,699
Total	$737,165

11 OTHER LIABILITIES

($ in thousands)	1991	1990
Obligations related to securities sold but not yet purchased	**$3,096,556**	$2,262,708
Other short term liabilities of subsidiaries	**264,167**	261,123
Accrued interest payable	**930,746**	951,187
Accounts payable, accrued expenses and other	**978,080**	898,849
Deferred fees	**55,916**	38,392
Total	**$5,325,465**	$4,412,259

12 SUBORDINATED DEBT

($ in thousands)	Interest rate %	Maturity date	Redeemable at the option of the Bank beginning	Denominated in U.S. $	1991	1990
Series 8 Debentures (a)	15.25	July, 1994	–	22,500	**$ 25,259**	$ 35,001
Series 9 Debentures	5.625(b)	April, 1996	April, 1989	250,000	**280,650**	291,675
Series 10 Debentures	6.4875(c)	July, 1998	July, 1991	250,000	**280,650**	291,675
Series 11 Debentures	10.60	December, 1998	–	–	**150,000**	150,000
Series 13 Debentures	9.11(d)	August, 2089	August, 2000	–	**150,000**	150,000
Series 14 Debentures	10.25	May, 2002	–	–	**150,000**	–
Subordinated Notes	10.30	March, 1999	March, 1994	125,000	**140,325**	145,838
Subordinated Notes	9.80	November, 2000	October, 1995	200,000	**224,520**	233,340
					1,401,404	1,297,529
Subordinated Notes	10.00	September, 1998	–	150,000	**168,390**	175,005
Total					**$1,569,794**	$1,472,534

(a) The Series 8 Debentures are subject to a mandatory retirement provision of U.S. $7.5 million per year, commencing July 1991, until maturity.

(b) The Series 9 Debentures bear interest at a rate of ⅛ of 1% above the London Eurodollar deposit rate, as defined, with a minimum rate of 5%. The stated rate is as at October 31, 1991.

(c) The Series 10 Debentures bear interest at a rate of 0.05% above the London Eurodollar deposit rate, as defined, with a minimum rate of 6.05%. The stated rate is as at October 31, 1991.

(d) The Series 13 Debentures bear interest at a rate equal to the Canadian "90 day Bankers' Acceptance Rate" plus 0.40%, as defined. The stated rate is as at October 31, 1991. They are redeemable from August 8, 2000, at the Bank's option, for either (a) cash at par plus unpaid accrued interest or (b) common shares of the Bank. The common share conversion price is 95% of the average trading price (as defined) of the Bank's common shares.

All subordinated debt represents direct unsecured obligations of the Bank and is subordinate in right of payment to the claims of depositors and certain other creditors.

In accordance with the formula prescribed in the Bank Act, the Bank has the capacity, as of November 1, 1991, to issue an additional $882.1 million of debentures.

The aggregate retirement provisions and maturities of the Bank's subordinated debt, as at October 31, 1991, are as follows:

($ in thousands)	
1992	$ 8,420
1993	8,420
1994	8,419
1995	–
1996	280,650
1997 and thereafter	1,263,885
Total	$1,569,794

13 SHARE CAPITAL

Authorized

50,000,000	Class A Preferred Shares without par value, issuable in series. The aggregate consideration for all Class A Preferred Shares shall not exceed $1 billion.
12,500,000	Class B Preferred Shares without par value, issuable in series. The aggregate consideration for all Class B Preferred Shares shall not exceed $250 million. These shares may be issued in foreign currencies.
	Unlimited number of Common Shares without par value. The aggregate consideration for all common shares shall not exceed $5.5 billion.

Outstanding

	1991		1990	
	Number of shares	**Amount ($ in thousands)**	Number of shares	Amount ($ in thousands)
Preferred Shares				
Class A – Series 3 (a)	**10,703,625**	**$ 267,591**	11,000,000	$ 275,000
– Series 4 (b)	**8,000,000**	**200,000**	8,000,000	200,000
Class B – Series 1 (c)	**10,000,000**	**250,000**	–	–
Common Shares (d) & (e)	**119,385,179**	**2,416,303**	114,994,530	2,275,789
Total Outstanding Share Capital		**$3,133,894**		$2,750,789

(a) The Class A Preferred Shares Series 3 have a cumulative minimum quarterly dividend equal to the greater of $0.53125 per share or one quarter of 75% of the Bank's average prime rate (as defined) times $25.00. These shares are redeemable, at the Bank's option, from February 1, 1991 to January 31, 1992 at $25.60 per share, and thereafter at declining premiums. Redemption is subject to the prior approval of the Superintendent of Financial Institutions.

In August, 1991, the Bank, having received regulatory approval, announced its intention to repurchase, through to December 31, 1991, up to 50% of the 11,000,000 outstanding Series 3 Shares for cancellation. As at October 31, 1991, 296,375 shares had been repurchased for cancellation.

(b) The Class A Preferred Shares Series 4 have a minimum quarterly non-cumulative dividend equal to the greater of $0.5625 per share or 56.60% of the cash dividend paid on common shares of the Bank. These shares are redeemable from September 20, 1999, at the Bank's option, for either (a) cash at $25.00 per share or (b) common shares of the Bank. By terms of the issue, the exchange ratio is set at 95% of the average trading price (as defined) of the Bank's common shares. Redemption is subject to the prior approval of the Superintendent of Financial Institutions.

(c) During the year 10,000,000 Class B Preferred Shares Series 1 were issued for cash of $250 million. The shares have a quarterly non-cumulative dividend of $0.5625 per share. These shares are redeemable from February 25, 2001, at the Bank's option, for either (a) cash at $25.00 per share or (b) common shares of the Bank. By terms of the issue, the exchange ratio is set at the greater of $2.50 and 95% of the average trading price (as defined) of the Bank's common shares. Redemption is subject to the prior approval of the Superintendent of Financial Institutions.

(d) During the year 4,390,649 (1990 – 4,234,445) common shares were issued under the Shareholder Dividend Reinvestment and Share Purchase Plan for a total value of $140.5 million (1990 – $113.5 million).

(e) As at October 31, 1991, 4,039,610 common shares were reserved for possible issuance in respect of the Shareholder Dividend Reinvestment and Share Purchase Plan.

14 INCOME TAXES

($ in thousands)	1991	1990
Total Income Taxes		
Total income taxes are provided for in the applicable financial statements, as follows:		
Consolidated Statement of Income		
Provision for income taxes	**$384,125**	$434,525
Consolidated Statement of Changes in Shareholders' Equity		
Unrealized gains/losses on translation of net investment in foreign operations, net of hedging activities	**38,135**	(10,593)
Other	**(1,619)**	16
Total income taxes	**$420,641**	$423,948
Current and Deferred Income Taxes		
Total income taxes are allocated to current income taxes (payable for the year) and deferred income taxes (representing timing differences between income taxes payable and total income taxes) as follows:		
Current income taxes	**$337,999**	$235,587
Deferred income taxes	**82,642**	188,361
Total income taxes	**$420,641**	$423,948
Effective Tax Rate		
The effective income tax rate in the Consolidated Statement of Income differs from the statutory rate, as described below:		
Combined Canadian Federal and Provincial statutory income tax rate	**41.5%**	41.7%
Increase (decrease) in rate resulting from:		
Average income tax rates applicable to income earned outside of Canada	**(3.8)**	–
Tax-exempt income from Canadian securities, primarily income debentures, preferred shares and small business bonds	**(1.2)**	(0.7)
Other	**2.5**	4.3
Effective income tax rate	**39.0%**	45.3%

15 Net Income per Common Share

Net income per common share is calculated using the daily average of common shares outstanding. For the year ended October 31, 1991 this average is 117,542,326 (1990 – 113,011,126). Net income applicable to common shares amounted to $543.7 million (1990 – $474.2 million), reflecting the deduction of preferred share dividends from net income for the year.

The Bank's Class A Preferred Shares Series 4, Class B Preferred Shares Series 1 and the Series 13 Debentures are redeemable at future dates, at the Bank's option, for either cash or common shares. As these contingencies are at the Bank's option, no dilution is considered applicable in this respect. On this basis there were no outstanding share contingencies which would cause dilution in earnings per share for 1991 and 1990.

16 Commitments and Contingent Liabilities

(a) Off-Balance Sheet Financial Instruments

The Bank, in the normal course of business, transacts in off-balance sheet financial instruments to meet the financing needs of its customers, to trade for profit purposes, and to manage its own exposures due to fluctuations in interest and currency rates. These financial instruments involve varying degrees of credit and market (foreign exchange and interest rate) risks, depending on the nature and term to maturity of each instrument. The Bank is compensated for the risks it assumes, relative to each transaction, by earning interest, fee and trading income.

Credit risk relates to the possibility that a loss will occur due to a failure by the counterparty to fulfill the terms of the contract. Market risk relates to the possibility that changes in foreign exchange and interest rates will render a financial instrument less valuable.

The Bank manages the credit risk associated with these financial instruments by implementing the same credit standards and policies used for its on-balance sheet assets. To reduce its exposure to market risk, the Bank generally enters into offsetting (hedged) positions which essentially counterbalance the original position. The potential loss attributable to foreign exchange and interest rate contracts is limited to the unrealized market valuation gains on the instruments and may vary based on changes in market rates.

The contractual amount of commitments to extend credit represents the maximum amount of exposure to loss should the counterparty not fulfill its obligations. However, this amount does not necessarily reflect the economic risk associated with the commitment value as the counterparty may not draw upon the full amount of the committed funds. Any potential loss on commitments to extend credit may be reduced by collateral provided by the counterparties.

The following table details the outstanding off-balance sheet financial instruments. It provides the notional principal amounts as well as the risk-weighted equivalent values, which are based on the rules on Capital Adequacy as prescribed by the Superintendent of Financial Institutions.

($ in millions)	1991		1990	
	Notional principal amount	**Risk-weighted equivalent**	Notional principal amount	Risk-weighted equivalent
Credit Instruments				
Guarantees and standby letters of credit	**$ 3,437**	**$ 2,815**	$ 3,478	$ 2,915
Documentary and commercial letters of credit	**712**	**136**	570	102
Commitments to extend credit	**47,450**	**6,609**	39,748	7,210
Note issuance and revolving underwriting facilities	**825**	**130**	726	347
Other	**400**	**187**	508	132
Foreign Exchange and Interest Rate Contracts				
Forward foreign exchange contracts	**129,645**	**880**	129,970	1,064
Forward rate agreements	**22,202**	**8**	21,438	4
Interest rate and cross-currency swaps	**35,743**	**412**	22,679	224
Interest rate and currency options (purchased)	**4,300**	**28**	4,655	22
Total	**$244,714**	**$11,205**	$223,772	$12,020

(b) Lease Commitments

($ in thousands)

Annual contractual rental commitments of more than $25 thousand for buildings and equipment for the next five years and thereafter are as follows:

1992	$ 93,328
1993	87,168
1994	74,838
1995	60,116
1996	50,256
1997 and thereafter	446,860

(c) Legal Proceedings

In connection with Allied Stores Corporation and Federated Stores, Inc. bankruptcy proceedings, certain Allied bondholders threatened action to reverse the repayment to the Bank in 1989 of a 1988 loan to Federated. A plan of reorganization for Allied and Federated, supported by those Allied bondholders and other creditors, has been proposed which if consummated would result in the release of any related claims without liability to the Bank as a result of those claims. Management believes that in any event these matters will not have a material adverse effect on the Bank's financial condition.

Management considers that the aggregate liability which may result from these and other legal proceedings outstanding against the Bank will not be material.

17 PENSION FUNDS

($ in thousands)	1991	1990
The Bank has a number of pension funds, of which The Pension Fund Society of the Bank of Montreal is the principal plan in Canada and the Employees' Retirement Plan of Bank of Montreal/Harris is the pension plan for most of the employees of Harris Bankcorp, Inc. and U.S.-based Bank of Montreal offices.		
The following table provides summaries of their estimated financial positions at October 31:		
The Pension Fund Society of the Bank of Montreal		
Pension plan assets at market value	**$1,021,600**	$850,500
Actuarial present value of accrued pension benefits	**936,700**	816,700
Surplus	**$ 84,900**	$ 33,800
The Employees' Retirement Plan of Bank of Montreal/Harris		
Pension plan assets at fair value	**$ 205,566**	$196,323
Actuarial present value of accrued pension benefits	**171,014**	175,709
Surplus	**$ 34,552**	$ 20,614
Total pension expense for the year*	**$ 55,242**	$ 39,197

*Total pension expense for the year in the Consolidated Statement of Income includes the expense for all of the Bank's pension plans, as well as Bank contributions to the Canada and Quebec Pension Plans.

Statement of Management's Responsibility for Financial Information

The consolidated statements of Bank of Montreal have been prepared by, and are the responsibility of, the Bank's management. The presentation and information provided therein have been prepared in accordance with the provisions of the Bank Act and related regulations and rules issued by the Superintendent of Financial Institutions, which correspond to generally accepted accounting principles except for certain aspects of the translation of foreign currencies. The financial statements necessarily include amounts based on informed judgements and estimates of the expected effects of current events and transactions with appropriate consideration to materiality. The financial information presented elsewhere in the Annual Report is consistent with that in the financial statements.

In meeting its responsibility for the reliability of financial information, management relies on comprehensive internal accounting, operating and system controls. The Bank's overall controls include an organizational structure providing for effective segregation of responsibilities, delegation of authority and personal accountability; written communication of policies and procedures of corporate conduct throughout the Bank, and careful selection and training of personnel; the regular updating and application of written accounting and administrative policies and procedures necessary to ensure adequate internal control over transactions, assets and records; as well as a continued program of extensive internal audit covering all aspects of the Bank's operations. These controls are designed to provide reasonable assurance that financial records are reliable for preparing financial statements and maintaining accountability for assets, that assets are safeguarded against unauthorised use or disposition and that the Bank is in compliance with all regulatory requirements.

The Board of Directors oversees management's responsibilities for financial statements through the Audit Committee, which is composed solely of directors who are not officers or employees of the Bank.

The Shareholders' Auditors and the Bank's Chief Auditor have full and free access to the Audit Committee to discuss audit, financial reporting and related matters.

Matthew W. Barrett Chairman and Chief Executive Officer	F. Anthony Comper President and Chief Operating Officer	Keith O. Dorricott Executive Vice-President and Chief Financial Officer

November 26, 1991

Shareholders' Auditors' Report

To the Shareholders of Bank of Montreal

We have audited the consolidated statements of assets and liabilities of Bank of Montreal as at October 31, 1991 and 1990 and the consolidated statements of income, changes in shareholders' equity and changes in financial position for the years then ended. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Bank as at October 31, 1991 and 1990 and the results of its operations and the changes in its financial position for the years then ended in accordance with prescribed accounting principles.

Coopers & Lybrand

Coopers & Lybrand
Chartered Accountants

Peat Marwick Thorne

Peat Marwick Thorne
Chartered Accountants

Toronto, November 26, 1991

The Pension Fund Society of the Bank of Montreal

CONDENSED CONSOLIDATED STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS

As at October 31
($ in thousands)

	1991	1990
Investments*		
Canadian equities	**$ 160,673**	$ 68,674
Foreign equities	**7,704**	–
Canadian equity fund units	**133,144**	145,446
Foreign equity fund units	**114,870**	97,053
Bonds and debentures	**440,153**	359,931
Mortgages	**48,597**	52,038
Money market instruments	**43,600**	61,430
Real estate properties	**46,859**	45,192
Oil & gas properties	**10,166**	10,518
	1,005,766	840,282
Accrued Interest, Dividends and Accounts Receivable	**11,137**	10,441
Cash	**5,735**	614
	1,022,638	851,337
Accounts Payable and Accrued Liabilities	**(996)**	(851)
Net Assets Available for Benefits	**$1,021,642**	$850,486

*All investments are carried at the estimated market value, except money market instruments and oil & gas properties which are carried at amortized cost, which approximates market value.

AUDITORS' REPORT

To the Board of The Pension Fund Society of the Bank of Montreal

We have audited the consolidated financial statements of The Pension Fund Society of the Bank of Montreal for the year ended October 31, 1991 and have reported thereon to the Members of The Pension Fund Society of the Bank of Montreal under the date of November 25, 1991. The accompanying condensed consolidated statement of net assets available for benefits, the condensed consolidated statement of changes in net assets available for benefits and the condensed statement of changes in pension obligations have been prepared from the aforementioned consolidated financial statements.

In our opinion, the accompanying condensed consolidated statement of net assets available for benefits, the condensed consolidated statement of changes in net assets available for benefits and the condensed statement of changes in pension obligations fairly summarize the information as to the financial position as at October 31, 1991 and the results of operations and the changes in financial position for the year then ended contained in the aforementioned financial statements.

Peat Marwick Thorne

Peat Marwick Thorne
Chartered Accountants

Toronto, Canada
November 25, 1991

The Pension Fund Society of the Bank of Montreal

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS

For the Year Ended October 31

($ in thousands)	1991	1990
Investment Income		
Dividends	$ 4,834	$ 2,247
Income from equity fund units	11,916	10,985
Interest	54,608	55,257
Income from real estate properties	4,409	3,954
Income from oil & gas properties	1,415	1,332
Gain (loss) on sale of investments	4,860	(2,402)
Foreign currency loss	(1,600)	–
	80,442	71,373
Increase (Decrease) in Unrealised Gains and Losses on Investments	112,876	(105,625)
Contributions		
Bank of Montreal	40,000	30,000
Members	4,669	4,672
	44,669	34,672
Payments and Expenses		
Benefit payments	(42,818)	(39,968)
Transfer payments	(2,829)	(4,207)
Refunds, including interest	(16,966)	(2,002)
Administrative expenses	(4,218)	(3,988)
	(66,831)	(50,165)
Increase (Decrease) in Net Assets	171,156	(49,745)
Net Assets Available for Benefits – Beginning of Year	850,486	900,231
Net Assets Available for Benefits – End of Year	$1,021,642	$ 850,486

The Pension Fund Society of the Bank of Montreal

CONDENSED STATEMENT OF CHANGES IN PENSION OBLIGATIONS

For the Year Ended October 31

($ in thousands)	1991	1990
Changes in Pension Obligations*		
Interest on accrued benefits	**$ 76,700**	$ 69,800
Benefits accrued during the year	**33,500**	31,100
Plan amendments	**8,400**	7,600
Changes in actuarial assumptions	**21,500**	–
Experience gains and losses	**42,513**	(30,023)
	182,613	78,477
Benefit, transfer and refund payments	**(62,613)**	(46,177)
Net Increase During the Year	**120,000**	32,300
Pension Obligations – Beginning of Year	**816,700**	784,400
Pension Obligations – End of Year	**$936,700**	$816,700

*Pension obligations are calculated in accordance with the Recommendations of the Canadian Institute of Chartered Accountants, using assumptions that represent management's best estimate of future events.

A copy of the Annual Report of The Pension Fund Society of the Bank of Montreal is available to members of the Society by contacting the Manager of The Pension Fund Society. The Annual Report of the Society contains the complete audited financial statements.

Directors of Bank of Montreal

(as at October 31, 1991)

Matthew W. Barrett (a)
Chairman and
Chief Executive Officer

F. Anthony Comper (a, e)
President and
Chief Operating Officer

Charles F. Baird, LL.D. (a, b, e)
Bethesda, Maryland
Company Director

Ralph M. Barford (a, b, e)
Toronto
President
Valleydene Corporation Limited

Peter J.G. Bentley, O.C. (c)
Vancouver
Chairman and
Chief Executive Officer
Canfor Corporation

Pierre Côté, C.M. (a, b, c)
Quebec
Chairman of the Board
Celanese Canada Inc.

C. William Daniel, O.C. (a, b, e)
Toronto
Corporate Director/
Consultant

Graham R. Dawson (d)
Vancouver
President
G.R. Dawson Holdings
Limited

Louis A. Desrochers, Q.C. (a, b)
Edmonton
Partner
McCuaig Desrochers

John F. Fraser, O.C.
Winnipeg
Chairman and
Chief Executive Officer
Federal Industries Ltd.

Thomas M. Galt (d, e)
Toronto
Company Director

John H. Hale
London, England
Director
Pearson plc

Donald S. Harvie, O.C. (f)
Calgary
Chairman
Devonian Foundation

Robert E. Kadlec
Vancouver
President and
Chief Executive Officer
BC Gas Inc.

Betty Kennedy, O.C., LL.D. (a, d)
Toronto
Broadcast Journalist

Geraldine A. Kenney-Wallace, Ph.D. (f)
Hamilton
President and Vice-Chancellor
McMaster University

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Robert H. McKercher, Q.C. (c)
Saskatoon
Partner
McKercher McKercher
Laing & Whitmore

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The Molson Companies
Limited

Jean C. Monty
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Chairman and
Chief Executive Officer
Bell Canada

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Former Chairman of the Board
Bank of Montreal

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North Sydney, Nova Scotia
Chairman
H.B. Nickerson & Sons Ltd.

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Montreal
President
Reitmans (Canada) Limited

William W. Stinson (c)
Montreal
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Chief Executive Officer
Canadian Pacific Limited

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Toronto
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Chief Executive Officer
CJRT-FM INC.

James C. Thackray
Toronto
Director
Bell Canada

Lorne C. Webster (a, b, c)
Montreal
Chairman and
Chief Executive Officer
Prenor Group Ltd.

B. Kenneth West
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Chief Executive Officer
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(a) Member of the Executive Committee
(b) Member of the Management Compensation Sub-Committee of the Executive Committee
(c) Member of the Audit Committee
(d) Member of the Donations Committee
(e) Member of the Risk Review Committee
(f) Director of The Pension Fund Society of the Bank of Montreal

Executive Officers

(as at October 31, 1991)

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Chairman and
Chief Executive Officer

F.A. Comper
President and
Chief Operating Officer

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Vice-Chairman
Corporate and Institutional
Financial Services

A.G. McNally
Vice-Chairman
Personal and Commercial
Financial Services

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Vice-President
Personal and Commercial
Banking

Y.J.P. Bourdeau
Executive Vice-President
and Treasurer

L.F. Darlington
Executive Vice-President
Operations

M.R.P. Rayfield
Executive Vice-President
Corporate Banking

L.C. Atkinson
Executive Vice-President
and Chief Economist

K.O. Dorricott, F.C.A.
Executive Vice-President
and Chief Financial Officer

G.W. Hopkins
Executive Vice-President
Corporate Staff

N.R. Macmillan
Executive Vice-President
Risk Management Policy

~ ~ ~

D.M. Jones
Senior Vice-President
Secretary and
General Counsel

R.B. Wells, C.A.
Senior Vice-President and
Chief Accountant

S. Zargham, F.C.A. (U.K.)
Senior Vice-President and
Chief Auditor

International Advisory Council

The International Advisory Council advises the Bank and its Senior Executive on political, economic and social trends which impact its current or future operations.

Sylvia Ostry, C.C.
(Council Chairman) (Canada)
Chairman, Centre for International Studies, University of Toronto; Chancellor, University of Waterloo; Western Co-Chairman, The Blue Ribbon Commission for Hungary's Economic Recovery; National Chairman, Canadian Institute of International Affairs; and former Ambassador of Canada for Multilateral Trade Negotiations and Personal Representative of the Prime Minister to the Economic Summit.

Matthew W. Barrett
(ex-officio) (Canada)
Chairman and
Chief Executive Officer,
Bank of Montreal.

Sir Peter B. Baxendell, C.B.E.
(United Kingdom)
Chairman of the Hawker Siddeley Group PLC; retired Managing Director of the Royal Dutch/Shell Group and of Shell Canada Limited.

F. Anthony Comper
(ex-officio) (Canada)
President and
Chief Operating Officer,
Bank of Montreal.

***Sir Neil Currie, C.B.E.**
(Australia)
Chairman of Coal & Allied Industries Limited and the Australian-Japan Foundation; former Australian Ambassador to Japan and Secretary of the Department of Industry and Commerce and the Department of Supply.

Viscount Étienne Davignon
(Belgium)
Chairman of the Société Générale de Belgique; former Vice-President of the Commission of the European Communities and former President of the International Energy Agency.

Juan Gallardo (Mexico)
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Philippe Giscard d'Estaing (France)
Chairman of Thomson International Advisory Board, International Advisor to the Chairman of Thomson SA and Vice-Chairman of CNPF International (Conseil National Du Patronat Français).

Allan E. Gotlieb, C.C. (Canada)
Chairman, Canada Council; Chairman, Burson-Marsteller, Canada; and former Ambassador of Canada to the United States.

***Reijiro Hattori (Japan)**
Chairman of Seiko Corporation; President of Wako Co. Ltd. and active member of Japanese business and economic organizations.

Hun Jo Lee (Republic of Korea)
President & Chief Executive Officer, Goldstar Co., Ltd.; Director of the Korea Institute for Industrial Economics & Technology; Vice-Chairman of Korea Industrial Research Institutes and Chairman of Audio and Video R&D Association of Korea.

David K.P. Li, O.B.E., J.P.
(Hong Kong)
Director and Chief Executive, The Bank of East Asia, Limited.

Hon. Allan J. MacEachen, P.C.
(Canada)
Senate of Canada; and former Deputy Prime Minister, Secretary of State for External Affairs and Minister of Finance.

Peter von Siemens
(Federal Republic of Germany)
Member of the Managing Board and Senior Vice-President of Siemens AG.

*Retired by rotation.
Members acknowledge with appreciation their contribution.

Bank of Montreal Locations

Canada

Personal & Commercial Financial Services

Atlantic

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Atlantic Provinces Division
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Nova Scotia
C.J. Kelly
District Vice-President
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Halifax, Nova Scotia
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New Brunswick and Prince Edward Island
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District Vice-President
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Fredericton, New Brunswick
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Newfoundland and Labrador
G. MacAskill
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238 Water Street
St. John's, Newfoundland
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Québec

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International

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Chicago Branch
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Muromachi 2-chome
Chuo-Ku, Tokyo 103 Japan

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Vice-President and Manager
Seoul Branch
Suhrin Building
88 Suhrin-Dong
Chongro-Ku,
Seoul, Republic of Korea

People's Republic of China
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Senior Representative
Noble Tower
22 Jianguomenwai Da Jie
Beijing, People's Republic of China

Republic of China
S. Jung
Senior Representative
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Taipei, Republic of China

Hong Kong
K.L. Dawson
Vice-President and Manager
Private Banking Centre
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Hong Kong

Singapore
T.Y.W. Hon
Director and Manager
Singapore Branch
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#26–01
Gateway West
Singapore 0718

Australia
D.R. Hutton
Senior Representative
33 York Street
Sydney, NSW 2000
Australia

Major Affiliates

The Nesbitt Thomson Corporation Limited
B.J. Steck
Chairman and
Chief Executive Officer
Sun Life Tower
150 King Street
Toronto, Ontario
M5H 3W2

Bank of Montreal Investment Management Limited
A.D.C. Mutch
President
302 Bay Street
Toronto, Ontario
M5X 1A1

Bank of Montreal Investor Services Limited
P.J.H. Bacon
President
First Canadian Place
Toronto, Ontario
M5X 1A1

Banco de Montreal S.A.
P.L. da Cunha
President
Travessa Do Ouvidor
No. 4–16 Andar
Rio de Janeiro GB
20149 Brazil

Harris Government Securities Inc.
D.C. Matthews
President
111 West Monroe Street
Chicago, Illinois 60690

Harris Bankcorp, Inc.
B.K. West
Chairman and
Chief Executive Officer
111 West Munroe Street
Chicago, Illinois 60690

Harris Bankcorp, Inc. Subsidiaries

Harris Bank Barrington, N.A.
C.R. Tonge
President
201 South Grove Avenue
Barrington, Illinois 60010

Harris Bank Batavia, N.A.
L.J. Sehring
President
155 West Wilson Street
Batavia, Illinois 60510

Harris Bank Frankfort
A.G. Tortorici
President
680 North LaGrange Road
Frankfort, Illinois 60423

Harris Bank Glencoe-Northbrook, N.A.
L.E. Freyer
President
333 Park Avenue
Glencoe, Illinois 60022

Harris Bank Hinsdale, N.A.
T. Werner
President
50 South Lincoln Street
Hinsdale, Illinois 60522

Harris Bank Libertyville
M.E. Godwin
President
890 North Milwaukee Avenue
Libertyville, Illinois 60048

Harris Bank Naperville
G.W. Stearns
President
503 North Washington Street
Naperville, Illinois 60566

Harris Bank Roselle
D.L. Webber
President
106 East Irving Park Road
Roselle, Illinois 60172

Harris Bank St. Charles
E.W. Butler
President
1 East Main Street
St. Charles, Illinois 60174

Harris Bank Argo
L.J. Kreczmer
President
7549 West 53rd Street
Summit, Illinois 60501

Harris Bank Wilmette, N.A.
J.W. Close
President
1701 Sheridan Road
Wilmette, Illinois 60091

Harris Bank Winnetka, N.A.
B. Osborne
President
520 Green Bay Road
Winnetka, Illinois 60093

Harris Trust Bank of Arizona
J.D. Cox
President
6263 North Scottsdale Road
Suite 100
Scottsdale, Arizona 85250-5401

Investor Information

Listing of Stock

The common and preferred shares of the Bank are listed on the Toronto, Montreal, Winnipeg, Alberta and Vancouver stock exchanges. The common shares are also listed on the London (England) stock exchange.

Common Stock Prices – Toronto Stock Exchange

Year Ended Oct. 31	1990	**1991**
High	$34.375	**$38.375**
Low	$24.500	**$26.500**
Close	$27.000	**$37.375**
Volume	38,879,400	**57,363,100**

Transfer Agent and Registrar

The Royal Trust Company and its principal offices at: Halifax, Montreal, Toronto, Winnipeg, Regina, Calgary, Vancouver and London (England) serves as transfer agent and registrar for common and preferred shares. In addition, Bank of Montreal Trust Company serves as transfer agent in New York.

Common Stock Dividends

Year Ended Oct. 31	
1987	$2.00
1988	$2.00
1989	$2.12
1990	$2.12
1991	**$2.12**

Shareholder Dividend Reinvestment and Share Purchase Plan

The Shareholder Dividend Reinvestment and Share Purchase Plan provides a means for holders of record of common or preferred shares resident in Canada to reinvest cash dividends in new common shares of the Bank at a discount without the payment of any commissions or service charges. Shareholders may also purchase additional common shares of the Bank by making optional cash payments of up to $40,000 per fiscal year. Full details of the plan are available from Shareholder Services.

Electronic Funds Transfer Service

Shareholders may choose to have dividends deposited directly to an account in any financial institution which provides electronic funds transfer facilities.

Restraints on Bank Shares under the 1980 Bank Act

The Bank Act limits ownership of any class of shares of the Bank by all non-residents to a maximum of 25%. Under this limitation, a resident of the United States is not classified as a non-resident. In addition, no person or group of associated persons may own more than 10% of any class of shares and ownership of the Bank's shares by Canadian or foreign governments is prohibited.

Distribution of Shareholders at October 31, 1991

Canada	98.0%
United States	0.9%
Other	1.1%
	100.0%

The above distribution summarizes the registered shareholders by geographic region. Accounts held in nominee name are included in the country in which the account is maintained.

Historical Review of the Bank

Canada's First Bank

Founded in 1817, fifty years before Canadian Confederation,

Bank of Montreal, as Canada's oldest bank, shared in the growth and development of the fledgling colonies. Without currencies of their own, trade in Upper and Lower Canada was conducted mainly by barter. Bank of Montreal bank notes introduced efficiency and stability to both domestic and foreign trade.

Cornerstone of a Country

With transportation critical to burgeoning enterprise, the Bank helped finance both Canada's first canal (Lachine, 1821-25) and its first railway (Champlain & St. Lawrence, 1832-36). During the 1850s, the Grand Trunk Railway, which ran from Quebec to Sarnia, was financed through the Bank. By 1859, Bank of Montreal was the third largest financial institution in North America.

Ties that Bind

Bank of Montreal became bank to the new Government of Canada in 1867 and continued the work of nation-building

through a unique partnership with the Canadian Pacific Railway. The railway created a physical link between east and west. With branches opening in communities along the route, the Bank helped lay other ties – those of security and prosperity.

North American Connections

Bank of Montreal's ties to the United States have a long tradition. By 1861, the Bank had opened offices in New York's bustling financial district and had a permanent agency in Chicago to service grain shipments to Montreal. One of the largest and most reliable banking institutions in the U.S., Bank of Montreal became a leading source of finance for Chicago's thriving export trade.

A New Century and Change

The dawn of the new century marked a new epoch in world industrial growth and Bank of Montreal grew with it. A branch was opened in Mexico City (1906) and its presence in London was expanded with Waterloo Place branch (1913).

In Canada, new branches in Windsor, Ontario, and in Quebec's Eastern Townships, in 1912, heralded the birth of automobile manufacturing and the growth of the Canadian textile industry.

Wars and Women

When the country marched to war in 1914, Bank of Montreal helped

finance the war effort through the promotion of Canadian Victory Loans and was there to pay the troops both at home and abroad. The Second World War brought dramatic numbers of women into banking. Today women represent 75% of the Bank's employees.

Expansion and Growth

Canada's post-war growth mirrored the Bank's own expansion as it financed massive energy projects and exports of aircraft, logging equipment and other goods, enabling Canadian firms to compete successfully in world markets. In 1984, it expanded operations in the U.S. with the acquisition of Harris Bankcorp, Inc. of Chicago and in 1987 became the first Canadian bank to own a full-service investment dealer, Nesbitt Thomson Inc.

Leading the Way

Bank of Montreal has consistently broken new ground in banking services. It brought MasterCard into Canada in 1973. A leader in computerized technology, it installed the first on-line Automated Banking Machines in 1980. The Bank's

pioneering efforts also extend to training. In 1991, the Bank announced plans to build a $40 million employee development centre, which will open in 1993 – another banking first.

For copies of the Annual Report, please write to the Public Affairs Department of the Bank, P.O. Box 6002, Postal Station Place d'Armes, Montreal, Quebec H2Y 3S8, or P.O. Box 1, 1 First Canadian Place, Toronto, Ontario M5X 1A1.

For other shareholder information, please write to the Secretary's Department, P.O. Box 6002, Postal Station Place d'Armes, Montreal, Quebec H2Y 3S8
(On peut obtenir sur demande un exemplaire en français.)

Supplemental financial data is available from Investor Relations, P.O. Box 1, 1 First Canadian Place, Toronto, Ontario M5X 1A1.

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Illustrations:
Doug Ross

Typesetting:
Moveable Type Inc.

Printing:
Arthurs-Jones Lithographing Ltd.

Printed in Canada

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